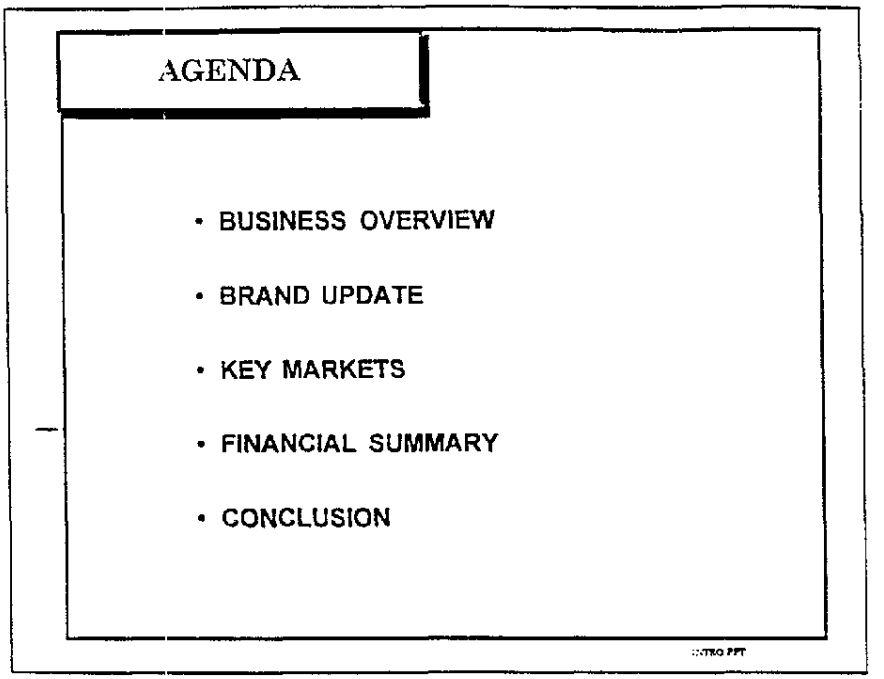

I'LL BEGIN WITH A BRIEF 2RF BUSINESS OVERVIEW .

SINCE OUR REGIONAL 2RF MEETINGS WERE CONDUCTED QUITE RECENTLY, I'VE TRIED NOT TO BE REPETITIVE IN THIS PRESENTATION. I'LL BE FOCUSING ON OUR BRAND PERFORMANCE WHICH IS THE STRENGTH AND STORY BEHIND OUR RESULTS.

I'LL THEN REVIEW OUR KEY MARKET ISSUES, FOLLOWED BY A FINANCIAL SUMMARY FROM VINNY MURPHY.

I'LL THEN RETURN FOR SOME CONCLUDING COMMENTS.

TO BRIEFLY LOOK AT OUR 2RF PROJECTION...

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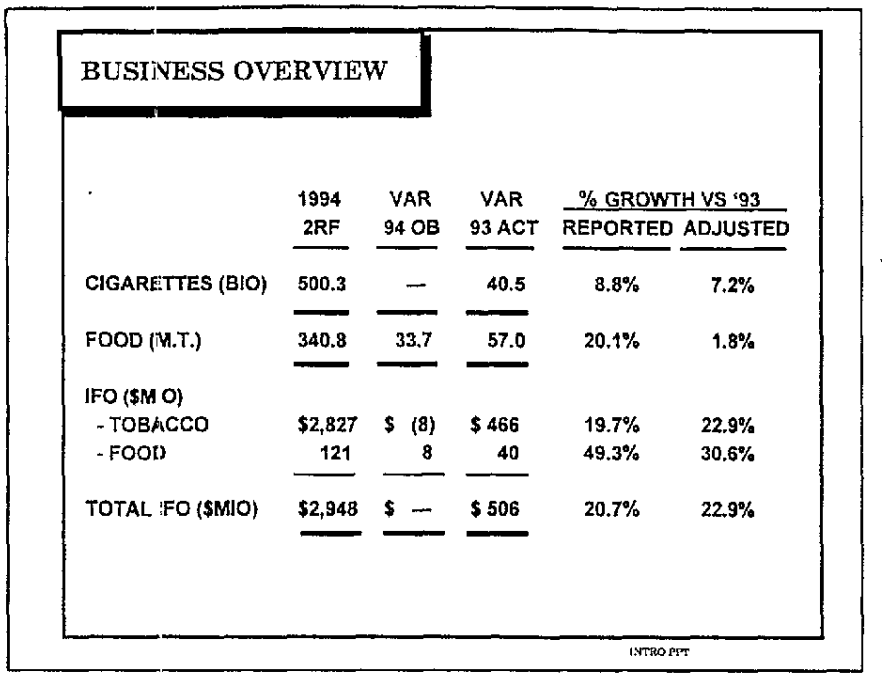
Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



VOLUME IS FORECASTED AT 500 BILLION UNITS, IN LINE WITH OB AND 9% ABOVE LAST YEAR. ON A COMPARABLE BASIS, IF WE EXCLUDE THE EFFECT OF VOLUME ACQUIRED THROUGH RECENT ACQUISITIONS, THE DFUSA CANADIAN BRANDS AND THE EFFECT OF THE MONITAL STRIKE, OUR 2RF VOLUME IS 7% ABOVE 1993.

FOOD VOLUME IS 34 THOUSAND TONS FAVORABLE TO OB DUE PRIMARILY TO THE QRK ACQUISITION AND FAVORABLE TO 1993 DUE PRIMARILY TO THE ACQUISITIONS OF QRK AND GALLITO, PARTIALLY OFFSET BY BRAZIL FROZEN CONFECTIONERY. EXCLUDING QRK AND GALLITO, OUR GROWTH RATE OVER 1993 WOULD BE 2%.

TURNING TO TOBACCO IFO, WE'RE IN LINE WITH OB AND UP $466 MIO OR 20% OVER 1993. IF WE EXCLUDE THE EFFECT OF CURRENCY, OUR GROWTH RATE VERSUS 1993 WOULD BE 23%. FOOD IFO IS ALSO IN LINE WITH THE OB AND FAVORABLE $40 MIO OR 49% OVER 1993. EXCLUDING THE REVERSAL OF A PUERTO RICO RESTRUCTURING PROVISION, THE FOOD GROWTH RATE WOULD BE 31%.

ON A COMBINED BASIS, OUR GROWTH RATE OVER 1993 EXCLUDING CURRENCY WOULD BE 23% . AS TO OUR MARKET SHARES....

NOTES ONLY:

VOLUME GROWTH OVER 1993 IS PRIMARILY DUE TO NEW BUSINESS IN EASTERN EUROPE, MOMENTUM OF NEXT IN JAPAN, DALLAS IN BRAZIL, L&M IN SPAIN, BOND STREET IN GULF DUTY FREE AS WELL AS GAINS IN GERMANY, ITALY, ROMANIA AND ASIA DUTY FREE. THESE POSITIVES ARE PARTIALLY OFFSET BY THE PRC AND TURKEY.

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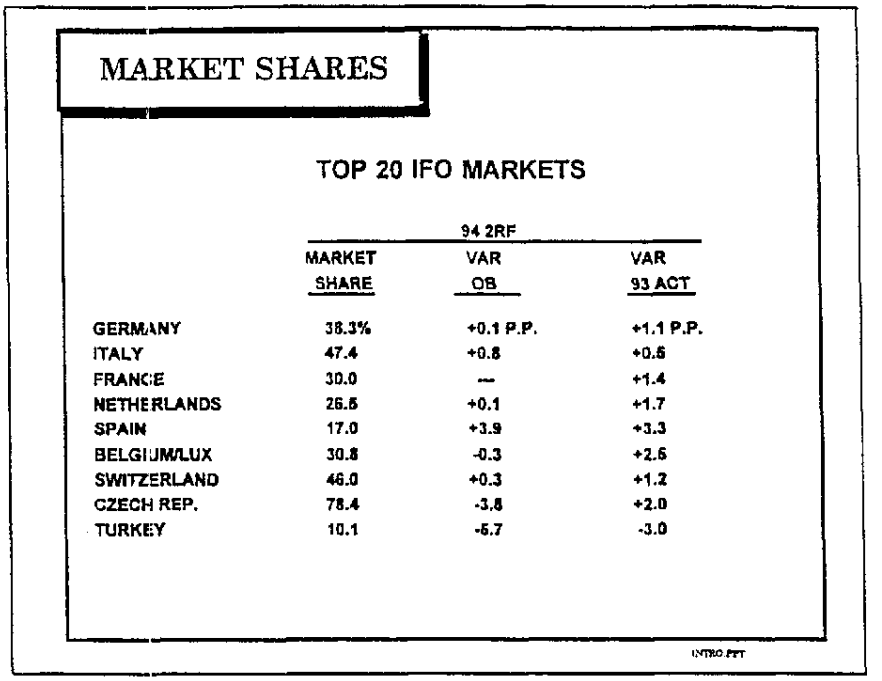
Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



LISTED ON THE NEXT TWO SLIDES ARE OUR 2RF SHARE PROJECTIONS FOR OUR TOP TWENTY IFO MARKETS. WE'RE PROJECTING SHARE TO BE ABOVE 1993 IN ALL MAJOR MARKETS EXCEPT TURKEY WHERE THE ECONOMIC SITUATION COMBINED WITH LOWER CONSUMER CONFIDENCE AND DISPOSABLE INCOME HAS LED TO DOWNTRADING.

TO CONTINUE....

NOTES ONLY:

VERSUS 93 ACTUAL

–IN SPAIN, WE'RE PROJECTING HIGHER L&M VOLUME SUBSEQUENT TO THE JUNE PRICE REDUCTION AND INCREASED ANTI-CONTRABAND EFFORTS.

–IN BELGIUM/LUXEMBOURG, OUR L&M AND LIGHTS BRAND PORTFOLIO IS SHOWING GOOD GROWTH AND WE ARE PROJECTING SHARE UP 2.5 SHARE POINTS.

VERSUS OB

–CZECH REPUBLIC IS DOWN DUE TO CONTINUED AVAILABILITY OF LOW PRICED PARALLEL PRODUCT AND THE EXPECTED ENTRY OF INTERNATIONAL COMPETITORS AS LOCAL MANUFACTURERS IN THE SECOND HALF OF 1994.

–TURKEY - DOWNTRADING DUE TO THE ECONOMIC SITUATION COMBINED WITH LOWER CONSUMER CONFIDENCE.

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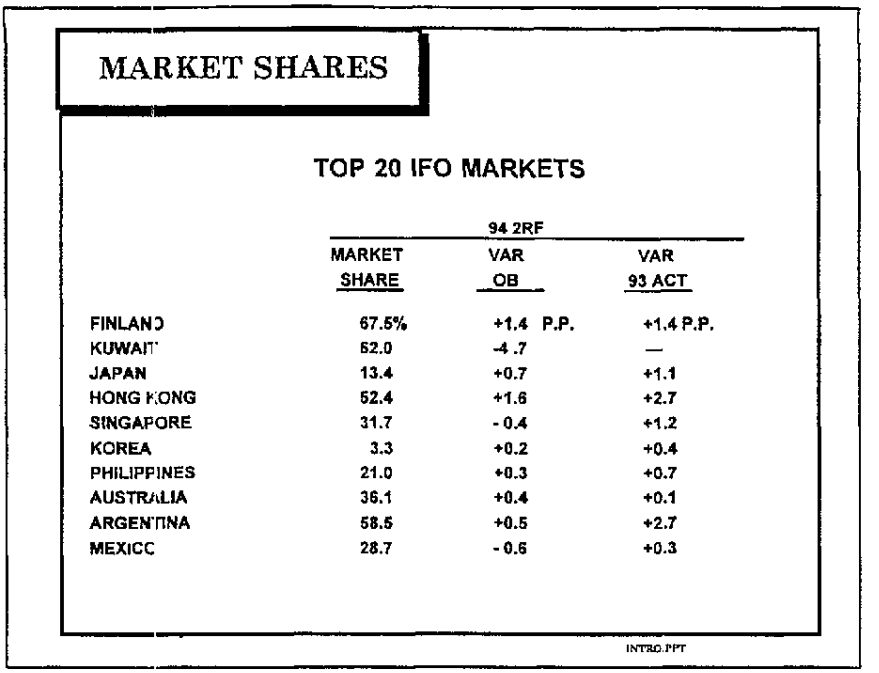
Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



ALL MARKETS EXCEPT KUWAIT ARE PROJECTED ABOVE 93 AS WELL.

IN KUWAIT, SHARE HAS BEEN ADVERSELY EFFECTED BY GROWTH IN THE LOW/ CHEAP SEGMENTS. IN APRIL, WE LAUNCHED RED AND WHITE, A VIRGINIA BLEND MANUFACTURED IN AUSTRALIA, TO PARTICIPATE IN THIS SEGMENT.

I'D NOW LIKE TO FOCUS ON OUR BRAND PORTFOLIO.

NOTES ONLY:

VERSUS 93 ACTUAL

–IN HONG KONG, THE TOTAL INDUSTRY IS DOWN, BUT WE ARE PROJECTING HIGHER 2RF VOLUME (PRIMARILY MARLBORO).

–IN ARGENTINA, INTERNATIONAL BRANDS CONTINUE TO GAIN DUE TO ECONOMIC STABILITY AND CONSUMER UPTRADING.

VERSUS OB

–IN SINGAPORE, WE'RE PROJECTING SHARES BELOW THE OB AS THE TOTAL INDUSTRY HAS DECLINED PARTLY DUE TO THE AVAILABILITY OF CONTRABAND.

–IN MEXICO, THE EFFECT OF CUMULATIVE PRICE INCREASES HAS CONTRIBUTED TO A MARKET CONTRACTION AND CONSUMER DOWNTRADING.

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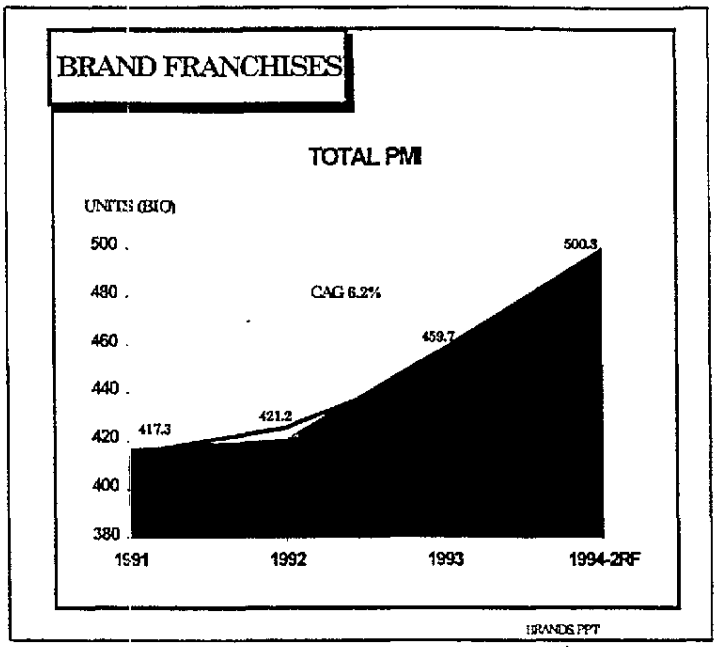
Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



PMI VOLUME AT 500 BILLION UNITS REFLECTS A COMPOUND ANNUAL GROWTH RATE OF 6.2% . THE SOLID LINE REFLECTS WHAT OUR VOLUME WOULD BE IF WE WERE TO EXCLUDE THE EFFECT OF ONE TIME EVENTS SUCH AS THE 1992 FOURTH QUARTER MONITAL STRIKE, THE CANADIAN BRANDS BUSINESS AND RECENT ACQUISITIONS IN LITHUANIA AND CENTRAL AND EASTERN EUROPE. OUR COMPOUND ANNUAL GROWTH RATE EXCLUDING THESE ADJUSTMENTS IS 5.1%.

TURNING TO OUR PROJECTED BRAND PORTFOLIO.....

2071969965

Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004

BRAND FRANCHISES

Units (flio)	SHIPMENTS 1994 2RF	VAR 93 ACT	% GROWTH 93 ACT
MARLBORO	251.3	12.5	5.2%
L&M	29.5	6.8	30.0%
PHILIP MORRIS	23.5	0.7	3.1%
LARK	20.2	0.2	1.0%
BOND STREET	17.3	6.9	66.3%
CHESTERFIELD	16.8	2.1	14.3%
MERIT	12.7	—	—
PARLIAMENT	11.7	0.3	2.6%
VIRGIN A SLIMS	5.4	0.5	10.2%
OTHER	10.3	(3.0)*	(22.6)%
TOTAL INT'L	398.7	27.0	7.3%
LOCAL	72.1	0.9	1.3%
ACQUISITIONS	29.5	12.6	74.6%
TOTAL VOLUME	500.3	40.5	8.8%

* INCLUDES ADJUSTMENT FOR ITALY RESTOCKING

BRANDS.PPT

AS YOU SEE HERE, WE'RE PROJECTING TO GROW VOLUME 41 BILLION UNITS OR 9% OVER 1993. THE BRANDS AND SEGMENTS LISTED ON THIS CHART WILL GIVE YOU SOME IDEA OF WHERE THAT GROWTH COMES FROM. IF WE ACCEPT THAT BOND STREET IS AN INTERNATIONAL TRADEMARK, OUR TOTAL INTERNATIONAL BRAND VOLUME GROWTH IS OVER 7% AND EXCEEDS OUR TARGET.

OTHER INTERNATIONAL BRAND VOLUME INCLUDES MULTIFILTER, BENSON & HEDGES, EVE AND MURATTI. THE NEGATIVE VARIANCE TO 93 ACTUAL PRIMARILY REPRESENTS OUR ADJUSTMENT FOR THE 1993 STOCK LEVEL REPLENISHMENT FOLLOWING THE END OF THE 1992 FOURTH QUARTER MONITAL UNION STRIKE.

NOW TO DISCUSS MARLBORO.

NOTES ONLY:

THE GROWTH IN ACQUISITION VOLUME IS DUE PRIMARILY TO RECENT ACQUISITIONS IN LITHUANIA AND CENTRAL AND EASTERN EUROPE.

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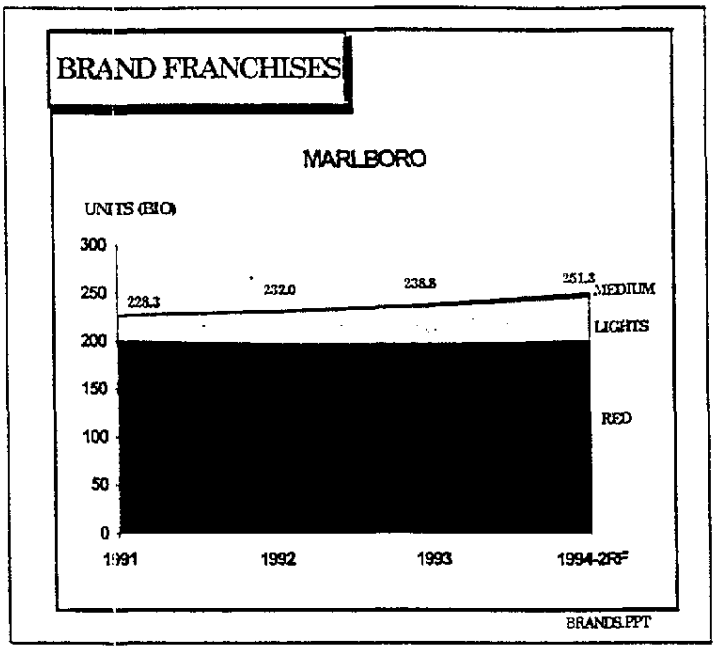
Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



MARLBORO VOLUME, AT 251 BILLION UNITS, REPRESENTS JUST OVER HALF OF PMI TOTAL VOLUME. AS YOU SEE HERE, MARLBORO RED REPRESENTS JUST OVER TWO THIRDS OF OUR TOTAL MARLBORO VOLUME, BUT IS RELATIVELY FLAT. LIGHTS IS ON THE UPSWING, PICKING UP VOLUME FROM CONSUMERS SEEKING A LOW TAR ALTERNATIVE. TO REINVIGORATE THE BRAND FAMILY AND ATTRACT YOUNG ADULT SMOKERS, MARLBORO MEDIUM HAS BEEN INTRODUCED IN SELECTED MARKETS AND THE BRAND IS GROWING.

TO LOOK AT MARLBORO MEDIUM MORE CLOSELY...

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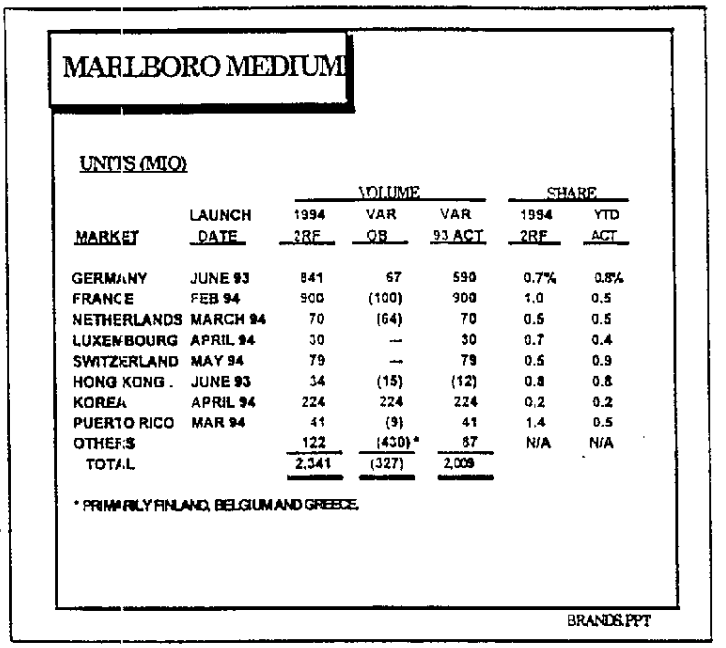
Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



MARLBORO MEDIUM OFFERS CONSUMERS NEW OPPORTUNITIES TO JOIN THE FRANCHISE AND IS AN ALTERNATIVE TO LIGHTS WHEN MOVING TO A LOWER TAR PRODUCT. THE BRAND WAS INITIALLY LAUNCHED IN GERMANY IN JUNE 93 AND THE BRAND HAS PERFORMED WELL. WE EXPECT TO END 94 AHEAD OF OUR OB TARGET. IN 1994, WE LAUNCHED MARLBORO MEDIUM IN SEVERAL NEW MARKETS - FRANCE, NETHERLANDS, SWITZERLAND AND KOREA - TO NAME A FEW.

EARLY INDICATIONS ARE THAT ACHIEVING OUR 2RF TARGET IN FRANCE WILL BE A STRETCH. HOWEVER, IN KOREA WE EXPECT THAT WE'LL EXCEED OUR 2RF PROJECTION, AS THERE IS A HIGH LEVEL OF CONSUMER ACCEPTANCE AMONG YOUNG ADULT SMOKERS.

MARLBORO MEDIUM WILL ADD AN ADDITIONAL 2 BILLION UNITS TO OUR 2RF VOLUME.

WE CONTINUE TO LOOK FOR NEW MARKETS WHERE A MARLBORO MEDIUM LAUNCH IS APPROPRIATE.

TO LOOK AT THE TOTAL MARLBORO FAMILY IN ABSOLUTE TERMS....

NOTES ONLY:

INCLUDED IN OTHER ARE SWEDEN, NORWAY, FINLAND, DF EEC, CORSICA, PANAMA, DF USA AND GUAM.

THE LAUNCH OF MEDIUM IN FINLAND (OB - 120 MILLION UNITS) WAS CANCELLED DUE TO NEGATIVE MARKET RESEARCH RESULTS.

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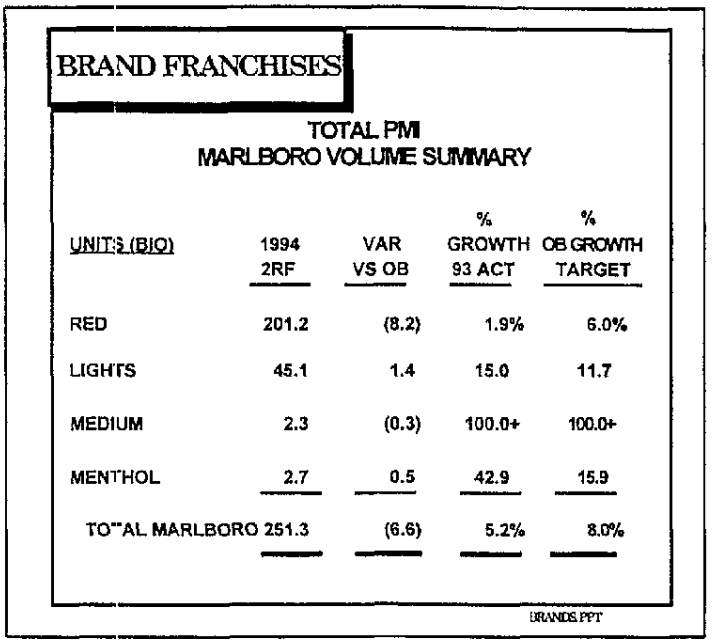
Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



TOTAL MARLBORO FAMILY VOLUME IS DOWN 6.6 BILLION UNITS FROM OB BUT UP 5.2% VERSUS 1993. THE UNFAVORABLE VARIANCE TO OB IS DUE PRIMARILY TO MARLBORO RED. WE'RE PROJECTING:

–LOWER SALES IN EASTERN EUROPE STEMMING FROM AN AFFORDABILITY ISSUE.

–LOWER SALES IN TURKEY DUE TO THE DETERIORATING ECONOMIC SITUATION AND CONSUMER DOWNTRADING, AND

– LOWER SALES IN POLAND DUE TO WEAKER THAN FORECAST DISTRIBUTION AS A RESULT OF THE DELAY IN THE ZPT ACQUISITION, ALONG WITH MARLBORO'S PRICING POSITION.

THE 5.2% GROWTH FOR THE TOTAL FAMILY VERSUS 1993 IS DUE PRIMARILY TO GAINS FOR MARLBORO LIGHTS, MEDIUM AND MENTHOL.

TO LOOK AT MARLBORO ON A REGIONAL BASIS....

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Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004

BRAND FRANCHISES

UNITS (B'O)

MARLBORO VOLUME
1994 2RF

	RED	LIGHTS	MEDIUM	MENTHOL	TOTAL	% OF TOTAL
EEC	85.8	21.6	1.9	0.7	110.0	43.8%
EEMA	49.6	10.7	0.1	0.4	60.8	24.2
JAPAN	4.0	1.7	0.0	0.8	6.5	2.6
ASIA	26.4	4.7	0.2	0.7	32.0	12.7
AUST	0.7	0.1	0.0	0.0	0.8	0.3
LA	33.3	5.6	0.1	0.0	39.0	15.5
DFUSA	1.4	0.7	0.0	0.1	2.2	0.9
TOTAL	201.2	45.1	2.3	2.7	251.3	100.0%

BRANDS.PPT

LISTED HERE IS THE MAKEUP OF OUR MARLBORO VOLUME.

EEC, AT 110 BILLION UNITS, REPRESENTS ALMOST 44% OF OUR TOTAL MARLBORO BRAND FRANCHISE AND IS AN IMPORTANT MARKET FOR PM. MARGINS HERE ARE GENERALLY HIGH AND THE BRAND'S CONTINUED SUCCESS IS OF VITAL IMPORTANCE TO OUR FUTURE PROFITABILITY.

OUR SECOND LARGEST MARKET IS EEMA, WHERE WE CONTINUE TO DEVELOP THE MARLBORO FRANCHISE AND CAPITALIZE ON THE RAPID CHANGES IN THIS PART OF THE WORLD.

IN JAPAN WE HAVE A LICENSE ARRANGEMENT WITH THE JT FOR THE MANUFACTURE OF MARLBORO AND THE BRAND IS EXPECTED TO GROW OVER 20% THIS YEAR.

IN ASIA, MARLBORO ACCOUNTS FOR OVER 75% OF OUR VOLUME IN THE REGION AND IS THE MAINSTAY OF OUR GROWTH.

AND IN LATIN AMERICA, MARLBORO IS BENEFITING FROM HIGHER PURCHASING POWER AND CONSUMER UPTRADING.

I'LL NOW LOOK AT MARLBORO'S GROWTH BY REGION AND VARIANT VERSUS 1993.

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Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004

BRAND FRANCHISES

UNITS (BIO)

MARLBORO GROWTH
1994 2RF VERSUS 1993 ACTUAL

	RED	LIGHTS	MEDIUM	MENTHOL	TOTAL	% GROWTH
EEC	-0.4	+2.3	+1.6	+0.1	+3.6	3.4%
EEMA	+1.1	+2.0	+0.1	-0.1	+3.1	5.3%
JAPAN	+0.4	---	---	+0.7	+1.1	20.5%
ASIA	+0.8	+0.9	+0.2	+0.1	+2.0	7.0%
AUST	+0.1	---	---	---	+0.1	10.2%
LA	+1.7	+0.6	+0.1	---	+2.4	6.5%
DFUSA	+0.1	+0.1	---	---	+0.2	12.7%
TOTAL	+3.8	+5.9	+2.0	+0.8	+12.5	5.2%
GROWTH VS 1993	1.9%	15.0%	100.0+%	42.9%	5.2%	

BRANDS.PPT

THE TOTAL MARLBORO FAMILY IS PROJECTED TO GROW IN ALL REGIONS VERSUS 1993. THE KEY DRIVERS OF THIS GROWTH ARE LIGHTS FOLLOWED BY RED AND MEDIUM.

ALTHOUGH RED IS INCREASING 3.8 BIO IN ABSOLUTE TERMS, ITS GROWTH RATE AT 1.9% IS NOT AS STRONG AS WE'D LIKE. AS YOU CAN SEE, THE DECLINE IN THE MATURE MARKETS OF EEC IS AFFECTING OUR OVERALL GROWTH RATE.

THIS DECLINE IS PRIMARILY ATTRIBUTABLE TO A 1.4 BILLION SHORTFALL IN FRANCE. ADJUSTING FOR FRANCE, AND THE INCREASE IN CIGARETTE VOLUME RESULTING FROM THE ROLLS SEGMENT DECLINE IN GERMANY, WE PROJECT RED TO BE FLAT OR GROWING MARGINALLY IN EEC.

TO LOOK AT EEC MORE CLOSELY...

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Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004

MOST OF THE EEC MARKETS ARE MATURE. WE PROJECT RED WILL HAVE A _____REGIONAL SHARE AT END OF 94. TO PUT THIS IN PERSPECTIVE, U.S.A.'S MARKET SHARE FOR RED IS CURRENTLY RUNNING ABOUT 10.5%.

WE FACE SEVERAL ISSUES IN EEC:

–FIRST, THE PREMIUM SEGMENT IS PENALIZED FROM THE HIGH AD-VALOREM COMPONENT OF TAXES. WE CONTINUE TO LOBBY FOR HIGHER SPECIFIC.

–SECONDLY, THERE IS A GROWING TREND TOWARD LOWER TAR PRODUCTS.

–AND THIRDLY, COMPETITION HAS INCREASED FROM MID-PRICE BRANDS ATTRACTING YOUNG ADULT SMOKERS.

ON A POSITIVE NOTE,

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Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004

THE MARLBORO FAMILY IS ENJOYING RECORD MARKET SHARE IN MARKETS SUCH AS GERMANY, ITALY AND THE BENELUX.

IN ADDITION, OUR RESEARCH SHOWS THAT THE MARLBORO FAMILY IS GROWING ITS YOUNG ADULT SMOKER SHARE AS A RESULT OF LIGHTS AND MEDIUM INROADS.

TURNING TO EEMA...

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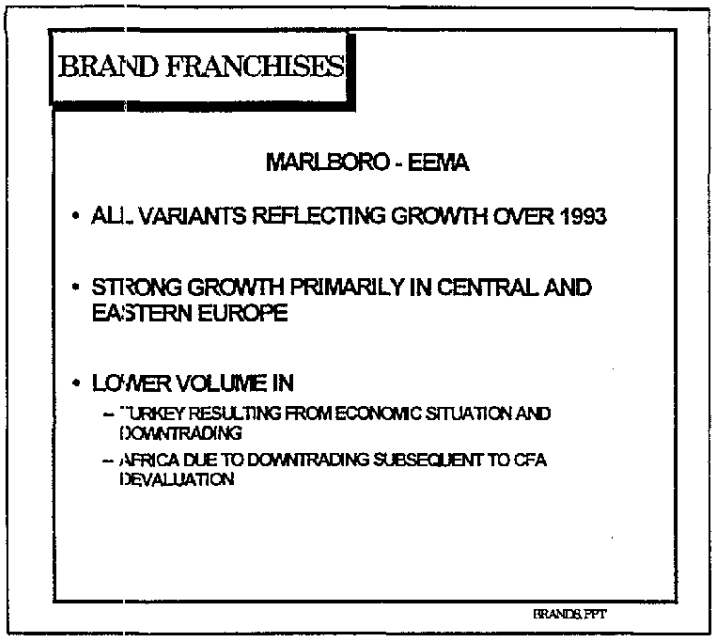
Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



MARLBORO IS PERFORMING WELL PRIMARILY IN CENTRAL AND EASTERN EUROPE.

HOWEVER IN TURKEY, WE'RE PROJECTED TO BE DOWN SIGNIFICANTLY VERSUS 1993 DUE TO THE DETERIORATING ECONOMIC SITUATION, DECLINING DISPOSABLE INCOMES AND LOWER CONSUMER CONFIDENCE WHICH HAS LED TO DOWNTRADING.

LOWER VOLUME IS ALSO PROJECTED IN AFRICA DUE TO THE DEVALUATION OF THE CFA.

TURNING TO JAPAN..

NOTES ONLY:

	1994 2RF	1994 OB	1993
TURKEY VOLUME(BIO)	6.3	11.1	9.1

2071969974

Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004

IN JAPAN, WE'VE COMPLETED TAR DELIVERY REDUCTIONS FOR RED FROM 15MG TO 13MG AND FOR LIGHTS FROM 11MG TO 9MG. FURTHERMORE, WE'RE PROPOSING TO REDUCE LIGHTS TO 6MG TO POSITION IT IN THE GROWTH SEGMENT OF THE MARKET. A TENTATIVE LAUNCH DATE FOR THE 6MG LIGHTS PRODUCT HAS BEEN SET FOR NOVEMBER 1994.

OTHER PLANS FOR THE FAMILY CALL FOR THE NATIONAL ROLLOUT OF MARLBORO LIGHTS MENTHOL AT 6MG IN OCTOBER 1994.

TURNING TO ASIA....

NOTES ONLY:

RED KS, 100'S	15MG - 13MG (COMPLETED) - GOING TO 12MG?
LTS	11MG - 9 MG (COMPLETED) - GOING TO 6MG.

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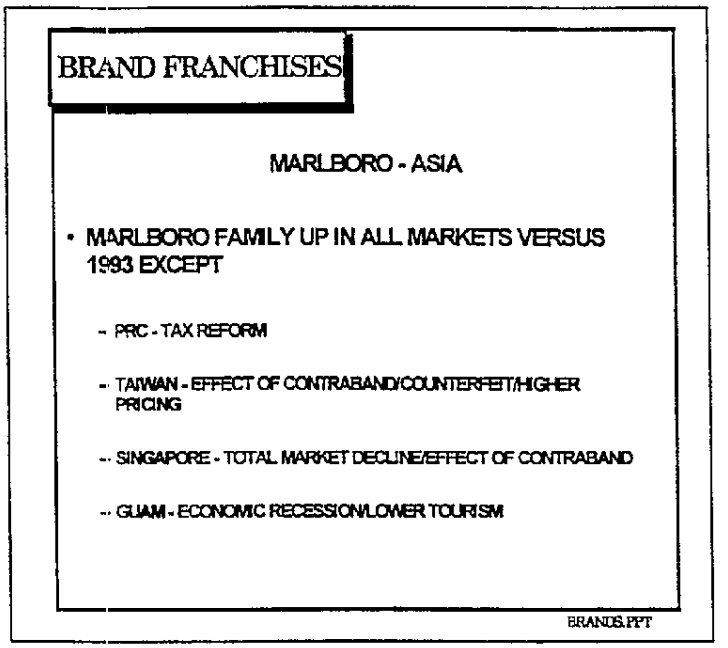
Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



IN ASIA, MARLBORO VOLUME IS PROJECTED UP 6.9% VERSUS 1993.

IN THE PRC, VOLUME HAS BEEN ADVERSELY EFFECTED BY HIGHER IMPORT DUTIES FOR THE DOMESTIC MARKET AS A RESULT OF THE TAX REFORMS EFFECTIVE JANUARY 1. WE PROJECT OUR 2RF VOLUME TO BE DOWN 1.4 BILLION UNITS VERSUS 1993 AS A RESULT.

IN TAIWAN, WE EXPECT VOLUME TO BE DOWN SLIGHTLY. OUR VOLUME CONTINUES TO BE ADVERSELY AFFECTED BY THE PRESENCE OF CONTRABAND AND COUNTERFEIT PRODUCT IN THE MARKET. WE ALSO ANTICIPATE THAT OUR JUNE PRICE INCREASE MAY REDUCE SALES.

IN SINGAPORE AND GUAM WE EXPECT OUR VOLUME TO BE FLAT VERSUS 93. SALES IN SINGAPORE HAVE BEEN EFFECTED BY A TOTAL MARKET DECLINE WHICH IS PARTIALLY THE RESULT OF THE AVAILABILITY OF CONTRABAND. IN GUAM, THE ECONOMY IS STILL SUFFERING FROM A SLOWDOWN IN ECONOMIC GROWTH AFTER THE AUGUST 1993 EARTHQUAKE WITH FEWER JAPANESE TOURISTS.

TURNING TO LATIN AMERICA...

NOTES ONLY:

1994 LAUNCHES	94 VOLUME
KOREA - MARLBORO MEDIUM	224 MIO
INDIA - MARLBORO RED	20 MIO
VIETNAM - MARLBORO RED	30 MIO
THAILAND - MARLBORO RED 14'S	7 MIO

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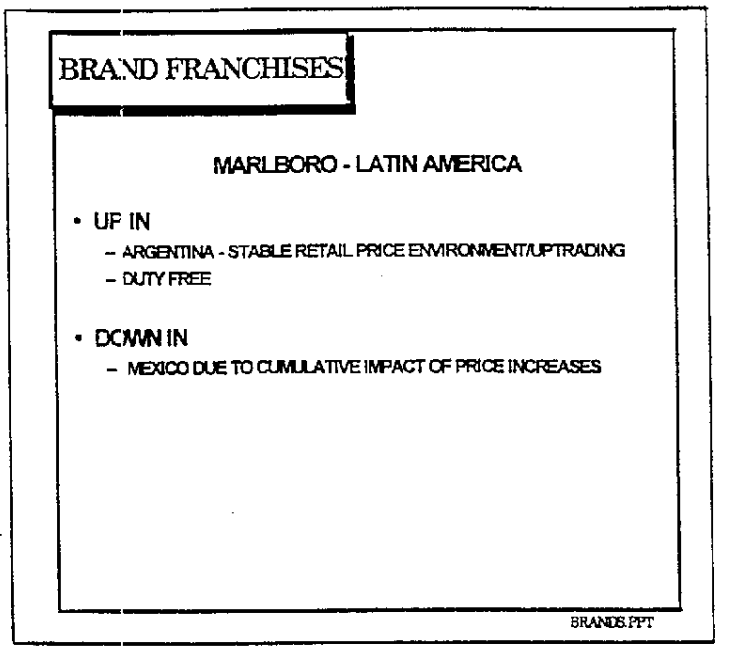
Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



WE'RE PROJECTING HIGHER VOLUME IN ARGENTINA DUE TO ECONOMIC STABILITY WHICH HAS LED CONSUMERS TO UPTRADE TO INTERNATIONAL BRANDS AND HIGHER EXPORTS IN OUR DUTY FREE MARKETS.

IN MEXICO, MARLBORO IS PROJECTED TO DECLINE VERSUS 1993 DUE PRIMARILY TO THE CUMULATIVE IMPACT OF PRIOR YEAR PRICE INCREASES.

TO SUM UP ON MARLBORO...

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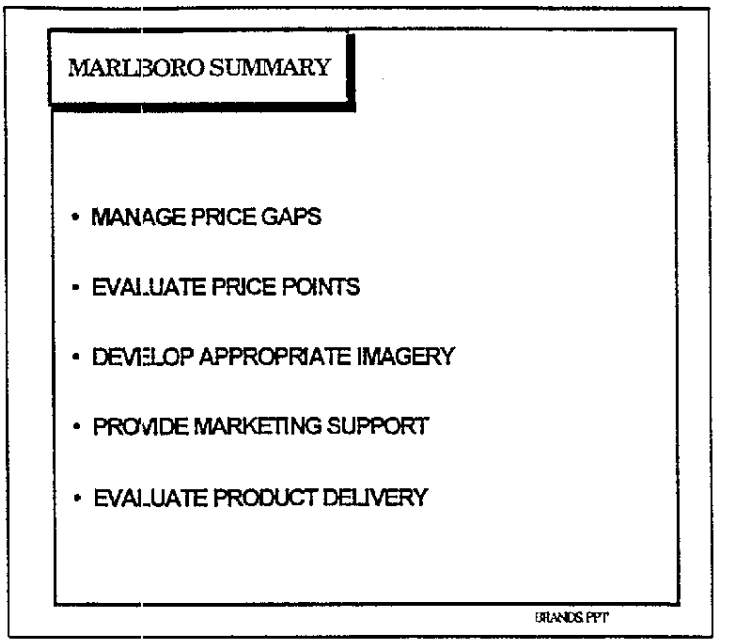

TOTAL MARLBORO FAMILY VOLUME IS PROJECTED TO INCREASE WORLDWIDE.

OUR GLOBAL STRATEGIES TO PROTECT AND BUILD MARLBORO, OUR MOST IMPORTANT BRAND FRANCHISE, ARE

MANAGING THE PRICE GAP BETWEEN PREMIUM AND MAINSTREAM/LOCAL BRANDS

EVALUATING THE APPROPRIATE PRICE POINTS FOR MARLBORO

DEVELOPING BRAND IMAGERY, ESPECIALLY IN MARKETS WHERE WE'VE RECENTLY GAINED ENTRY (IE: NEW ACQUISITIONS)

PROVIDE AN APPROPRIATE LEVEL OF MARKETING SUPPORT. TO THIS END, WE CONTINUE TO DEVELOP INNOVATIVE PROGRAMS AND CAMPAIGNS SUCH AS THE ADVENTURE TEAM CONCEPT AND SPORTS SPONSORSHIP IN ASIA . OUR 2RF INCLUDES ADDITIONAL MARKETING MONIES TO FURTHER SUPPORT MARLBORO IN GERMANY, FRANCE, TAIWAN, PRC AND KOREA.

LASTLY, WE CONTINUE TO MONITOR CONSUMER PREFERENCES FOR LIGHTER PRODUCTS AND EVALUATE PRODUCT CHANGES, AS NECESSARY. A TESTING PROGRAM FOR THE TAR REDUCTION OF MARLBORO RED IS UNDERWAY.

NOW TO DISCUSS L&M....

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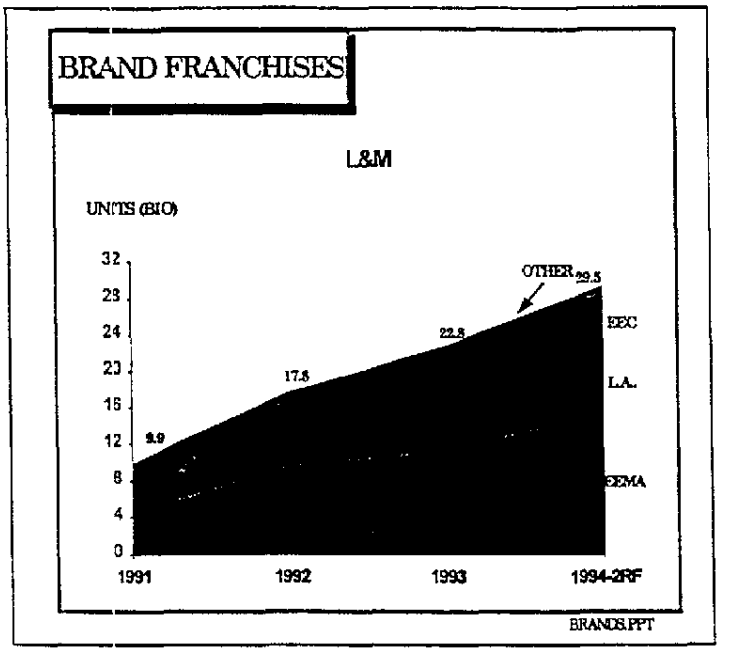

L&M IS ATTRACTIVE TO CONSUMERS AS A PRICE VALUE BRAND. IT'S BEEN THE KEY TO MAINTAINING PM'S SHARE IN SUCH MARKETS AS FINLAND, SAUDI ARABIA, BELGIUM AND BRAZIL. AS THE CHART INDICATES, L&M SALES HAVE INCREASED SIGNIFICANTLY IN EEMA AND LATIN AMERICA. VOLUME CONTINUES TO GROW IN OUR EASTERN EUROPE EXPORT BUSINESS DUE TO THE BRAND'S AFFORDABLE PRICE PROPOSITION.

IN LATIN AMERICA, L&M IS GROWING IN ARGENTINA AS CONSUMERS CONTINUE TO UPTRADE TO INT'L BRANDS. WE'RE ALSO PROJECTING GROWTH IN PUERTO RICO WHERE WE HAVE INCREASED OUR MARKETING SUPPORT TO COMPETE AGAINST WINSTON.

IN EEC, WE'RE PROJECTING HIGHER L&M VOLUME IN SPAIN AS A RESULT OF THE GOVERNMENT'S EFFORTS TO REDUCE CONTRABAND AND A PRICE REDUCTION FROM 180 TO 150 PESETAS. IN FRANCE, WE CONTINUE TO GAIN VOLUME AS CONSUMERS DOWNTRADE FROM PREMIUM BRANDS.

TURNING TO PHILIP MORRIS.....

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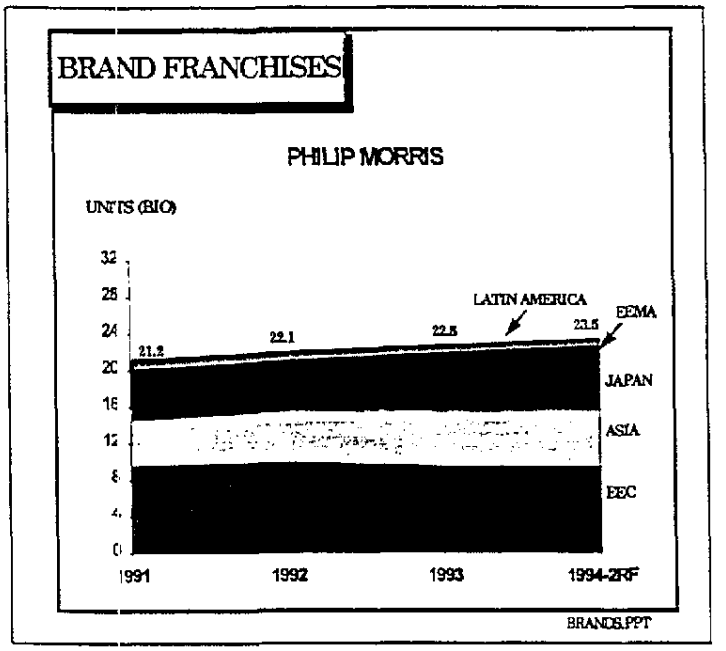
Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004

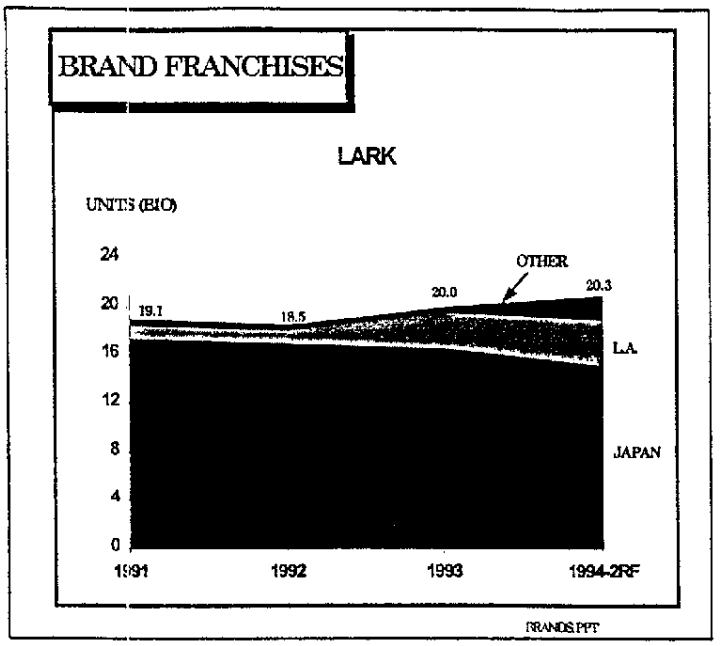


PHILIP MORRIS IS A FREE STANDING LOW TAR BRAND. TOTAL VOLUME, AT 23.5 BILLION UNITS, IS PROJECTED TO GROW VERSUS 1993 DUE PRIMARILY TO PHILIP MORRIS SUPER LIGHTS PERFORMANCE IN JAPAN.

TURNING TO LARK....

2071969980

Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



LARK IS PROJECTED TO GROW IN THE 2RF TO OVER 20 BILLION UNITS DESPITE A FURTHER DECLINE IN JAPAN.

TO REINVIGORATE THE BRAND IN JAPAN WE INTEND TO RE-LAUNCH LARK SUPERLIGHTS BOX IN DECEMBER AND SUPPORT THE BRAND BY MAXIMIZING OUR GRP'S WITH TWO NEW COMMERCIALS. IN AUGUST, WE ALSO PLAN TO DROP THE PRICE OF LARK 100'S FULL FLAVOR AND MILDS BY 10 YEN PER PACK TO RESTORE SOME MOMENTUM FOR THE BRAND.

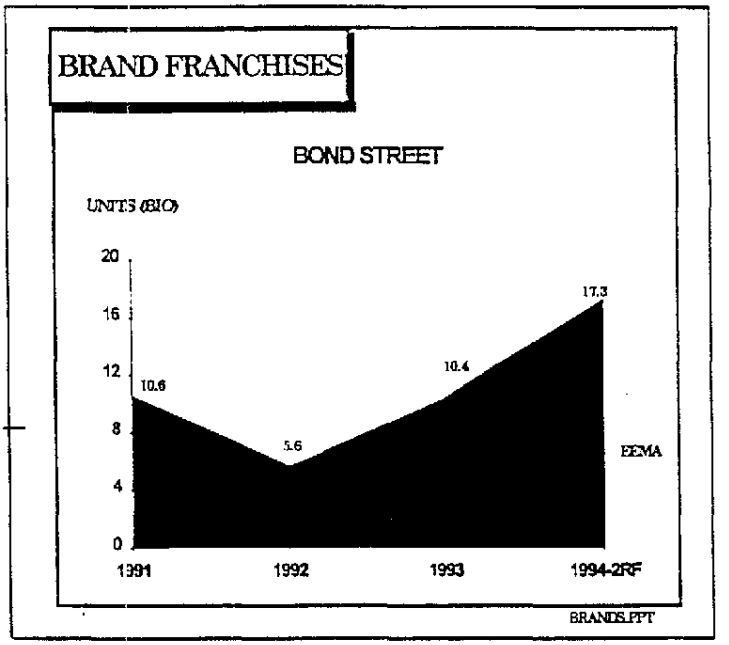
IN LATIN AMERICA, WE'RE PROJECTING GROWTH IN BRAZIL DUE TO THE LAUNCH OF LARK MILDS SUAVE. THIS FORMAT WILL ALSO BE INTRODUCED IN ECUADOR.

THE GROWTH IN "OTHER" IS PRIMARILY DUE TO THE PLANNED LAUNCH OF LARK IN TURKEY IN THE BELOW PREMIUM PRICE CATEGORY POSITIONED AGAINST TEKEL 2000.

TURNING TO BOND STREET....

2071969981

Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



BOND STREET IS A LOW COST PRODUCT PRIMARILY PRODUCED IN BRAZIL FOR THE EEMA REGION. THE MARKETS FOR WHICH THIS BRAND HAS APPEAL ARE EASTERN EUROPE, GULF DUTY FREE, LEVANT AND WEST AND CENTRAL AFRICA. THE BRAND'S PERFORMANCE IS SIGNIFICANT DESPITE NO MEANINGFUL MARKET SUPPORT TO DATE. WE'LL WORK ON THE DEVELOPMENT OF A CAMPAIGN TO ADD AN IMAGE DIMENSION TO THE PRODUCT IN THE FUTURE. THE DECLINE YOU SEE ON THIS CHART IN 1992 IS DUE PRIMARILY TO THE RVT RUSSIA CONTRACT IN 1991. THE 2RF ASSUMES HIGHER DEMAND IN OUR EASTERN EUROPE EXPORT BUSINESS AND GULF DUTY FREE.

TURNING TO CHESTERFIELD.....

NOTES ONLY:

PRODUCT ALSO CURRENTLY PRODUCED IN THE U.S. TO MEET CURRENT DEMAND.

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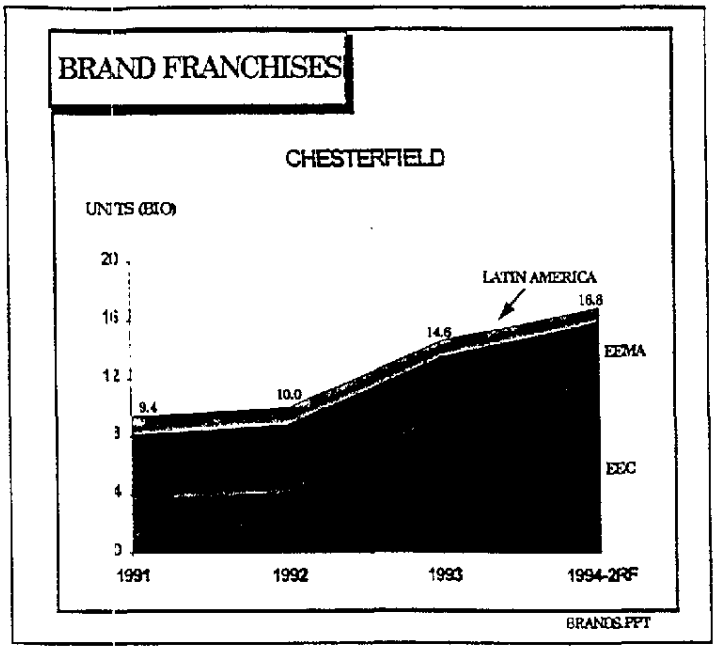
Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



CHESTERFIELD CONTINUES TO ENJOY SOLID GROWTH MOMENTUM PRIMARILY IN FRANCE. A NUMBER OF CHESTERFIELD LINE EXTENSIONS WERE SUCCESSFULLY INTRODUCED IN 1993 AND 1994 IN THE MAINSTREAM 20/25'S SEGMENT TO COMPETE AGAINST GAULOISES BLONDES AND WINSTON. WE PLAN TO INTRODUCE LINE EXTENSIONS WITH THE DISTINCTIVE ORIGINAL'S PACKAGING IN GERMANY, GREECE AND ISRAEL.

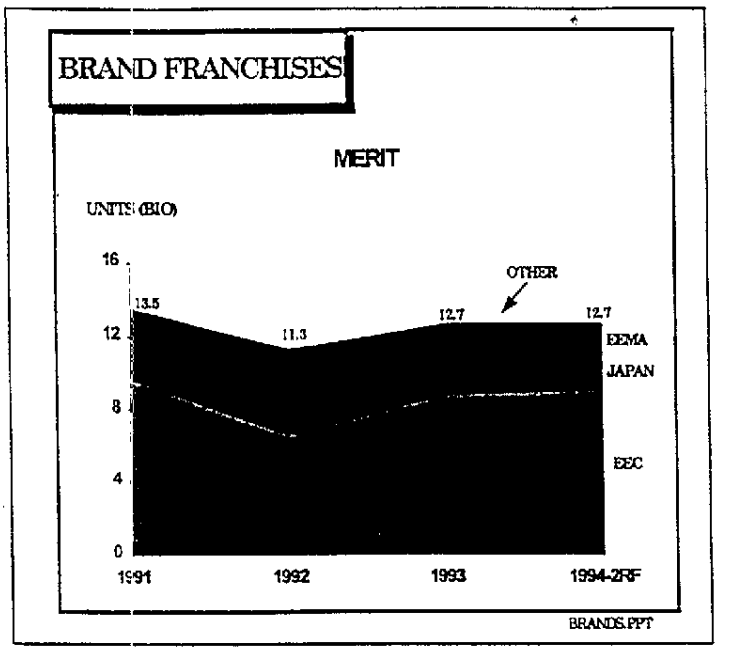
CHESTERFIELD IS AN EXAMPLE OF A PRODUCT WITH MAINSTREAM APPEAL WHICH IS BEING DEVELOPED INTO A GLOBAL FRANCHISE.

CHESTERFIELD IS ALSO AN ATTRACTIVE PRICE PROPOSITION IN AFRICA , LEBANON AND ARGENTINA.

TURNING TO MERIT ...

2071969983

Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



MERIT IS A FREE STANDING, LOW TAR BRAND WITH MAJOR APPEAL IN ITALY, THE EEC DUTY FREE MARKETS, MIDDLE EAST, SWITZERLAND, EGYPT AND JAPAN.

IN EEC, WE'RE PROJECTED TO GROW VOLUME IN ITALY. OUR BRAND PLANS INCLUDE THE LAUNCH OF MERIT UNO IN OCTOBER 1994.

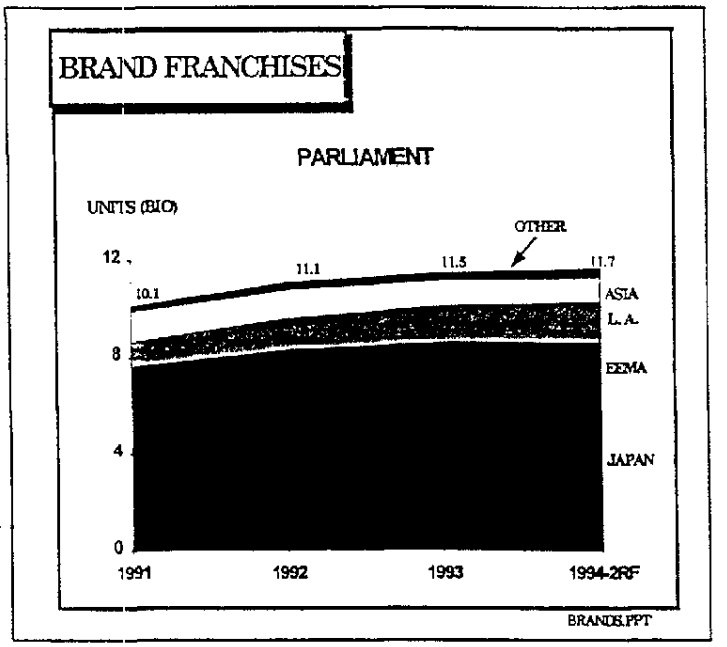
IN JAPAN, MERIT VOLUME IS PROJECTED TO DECLINE VERSUS 1993, ALTHOUGH AT A SLOWER RATE, DUE TO INCREASED COMPETITION FROM THE 1 MG SEGMENT WHICH INCLUDES NEXT AND FRONTIER LIGHTS. WE PLAN TO SPEND ADDITIONAL MARKETING FUNDS TO INCREASE TV GRP'S AND ADDITIONAL OUT OF HOME ADVERTISING.

MERIT IS ALSO FORECASTED TO BE DOWN IN SWITZERLAND AND KUWAIT.

TURNING TO PARLIAMENT....

2071969984

Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



PARLIAMENT OFFERS A UNIQUE PRODUCT BENEFIT - THE RECESSED FILTER- WHICH GIVES US THE OPPORTUNITY TO PROVIDE CONSUMERS WITH A DISTINCT PRODUCT DIFFERENCE.

OUR STRATEGY WITH PARLIAMENT HAS BEEN TO EMPHASIZE ITS UPSCALE SOPHISTICATED URBAN APPEAL.

THIS POSITIONING, AS WELL AS THE INTRODUCTION OF ROUNDED CORNER PACKS ON THE LIGHTS KS VARIANT TO FURTHER DIFFERENTIATE THE PRODUCT, HAS ALREADY IMPROVED THE PRODUCT'S PERFORMANCE IN JAPAN.

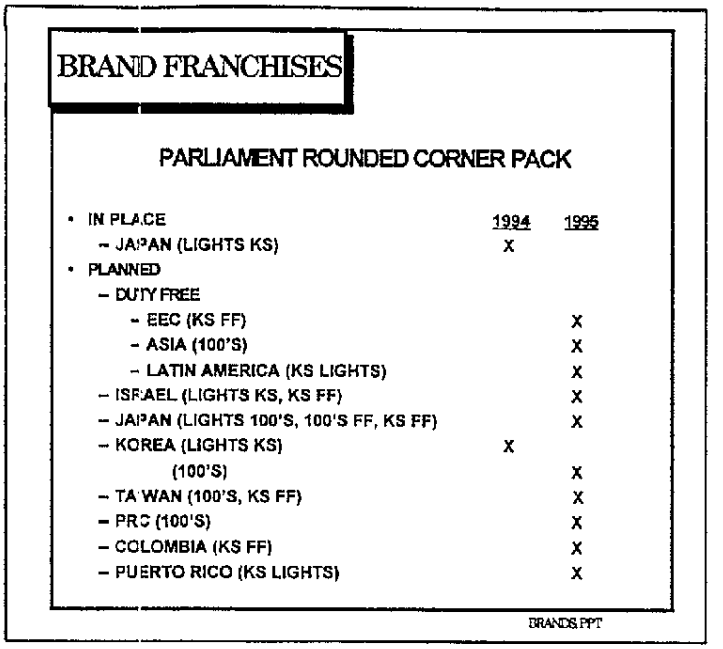
ALTHOUGH THE BRAND'S CAMPAIGN IS THE SAME IN TURKEY, CURRENT ECONOMIC CONDITIONS AND CONSUMER DOWNTRADING ARE PROJECTED TO CONSTRAIN THE BRAND'S GROWTH IN THIS MARKET.

IN LATIN AMERICA, PARLIAMENT IS GROWING IN ARGENTINA DUE TO CONSUMER UPTRADING TO INTERNATIONAL BRANDS.

AS TO THE ROUNDED CORNER PACK....

2071969985

Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



THE SUCCESS OF THE LIGHTS KS ROUNDED CORNER PACK IN JAPAN HAS LED TO THE DECISION TO LAUNCH SIMILAR FORMATS IN THE MARKETS NOTED HERE.

-PAUSE-

TURNING TO VIRGINIA SLIMS....

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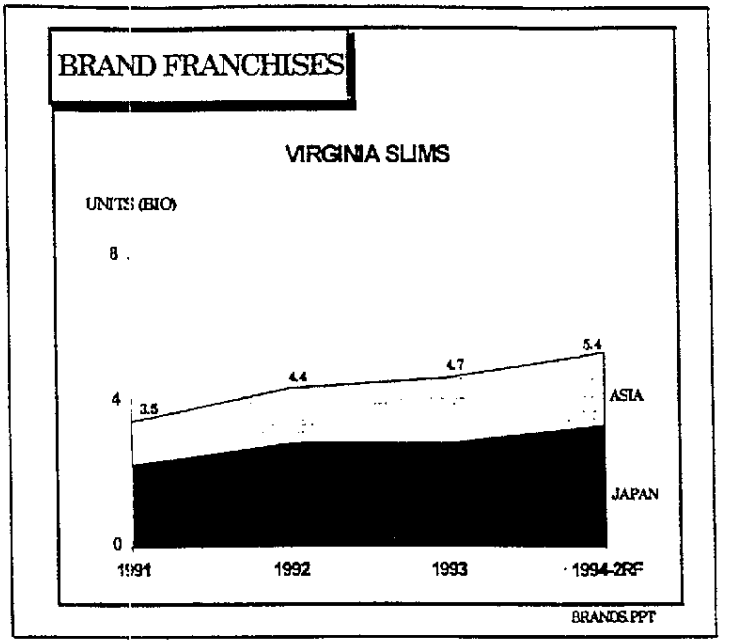
Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



VIRGINIA SLIMS IS A BRAND WITH APPEAL IN BOTH JAPAN AND ASIA.

IN JAPAN, THE BRAND IS POSITIONED AS A CONTEMPORARY YOUNG ADULT FEMALE BRAND AND IS SUPPORTED BY THE "BE YOU" CAMPAIGN. WE ALSO INTEND TO LAUNCH VIRGINIA SLIMS LIGHTS IN A TEST AREA IN SEPTEMBER.

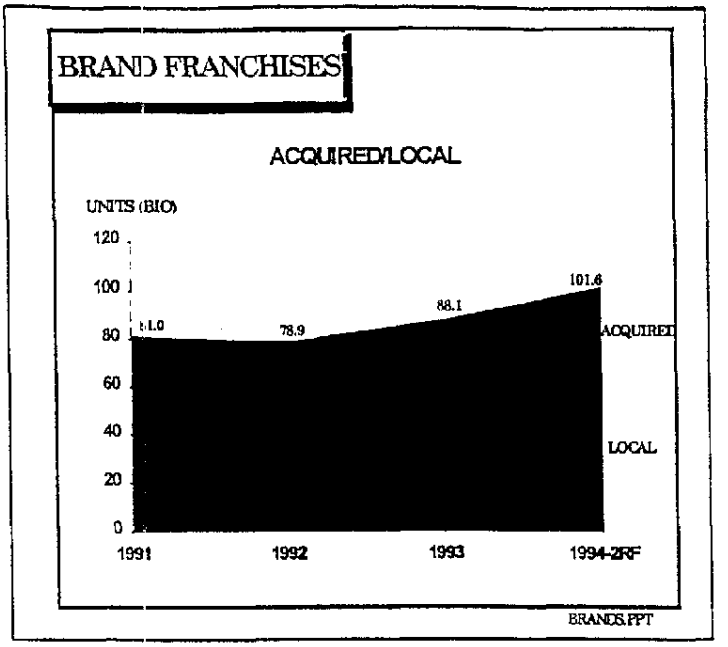
IN ASIA, THE BRAND HAS EXPERIENCED GROWTH IN TAIWAN AND KOREA. IN KOREA, THE BRAND'S APPEAL IS TO MORE TRADITIONAL MALE SMOKERS RATHER THAN YOUNG ADULT FEMALES.

WE'RE EXPLORING THE POSSIBILITY OF EXPANDING VIRGINIA SLIMS IN LATIN AMERICA.

TURNING NOW TO ACQUIRED AND LOCAL BRANDS.....

2071969987

Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



•COMBINED ACQUIRED AND LOCAL BRAND VOLUME TOTAL OVER 101 BILLION UNITS IN THE 2RF.

•2RF LOCAL BRAND VOLUME, AT 72 BILLION UNITS, ACCOUNTS FOR ABOUT 15% OF OUR TOTAL BRAND PORTFOLIO.

•A REPRESENTATIVE SAMPLE OF LOCAL BRANDS AND WHERE THEY'RE SOLD IS LISTED ON THE NEXT SLIDE.

2071969988

Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004

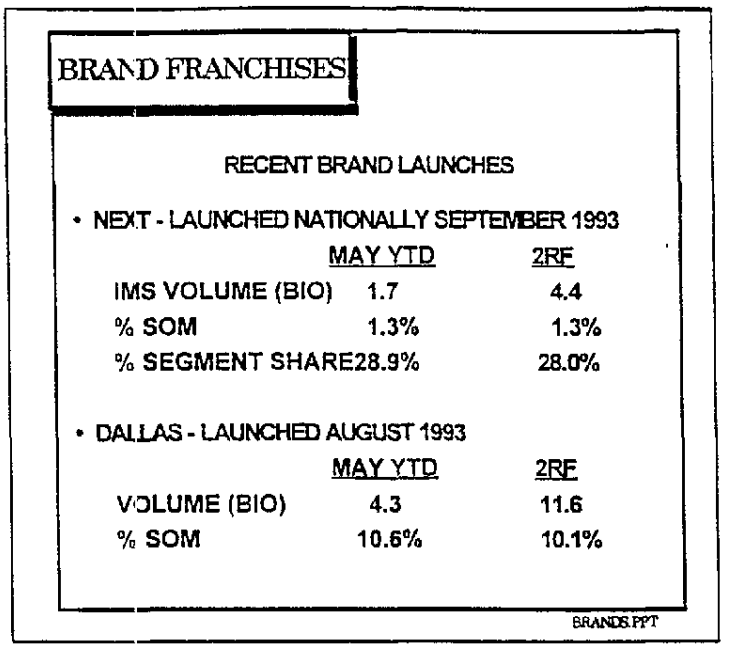
DIANA, NEXT AND DALLAS ARE PROJECTED TO BE ABOVE 1993.

NEXT, CURRENTLY SOLD IN JAPAN, HAS THE POTENTIAL TO BECOME AN INTERNATIONAL TRADEMARK.

I'D NOW LIKE TO DISCUSS TWO OF OUR MOST RECENT SUCCESSFUL BRAND LAUNCHES - NEXT IN JAPAN AND DALLAS IN BRAZIL

2071969989

Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



NEXT WAS LAUNCHED NATIONALLY IN JAPAN IN SEPTEMBER 1993 AND HAS PERFORMED ABOVE ORIGINAL EXPECTATIONS. THE BRAND IS A FREESTANDING, 1MG PRODUCT AND COMPETES AGAINST FRONTIER LIGHTS, A JT BRAND. THROUGH MAY WE HAVE ACHIEVED OUR 2RF SHARE OF MARKET AND EXCEEDED OUR SHARE OF THE SEGMENT. WE ARE CONSIDERING NEXT AS A POSSIBLE LAUNCH IN OTHER ASIAN AND EUROPEAN MARKETS.

DALLAS WAS LAUNCHED IN BRAZIL IN AUGUST 1993 AND PARTICIPATES IN THE LOWEST PRICE CATEGORY AGAINST DERBY. THROUGH MAY WE HAVE EXCEEDED OUR 2RF SHARE OF MARKET.

NOW TO LOOK AT ACQUIRED VOLUME.

NOTES ONLY:

POSSIBLE "NEXT" EUROPEAN MARKETS

- SWITZERLAND
- GREECE

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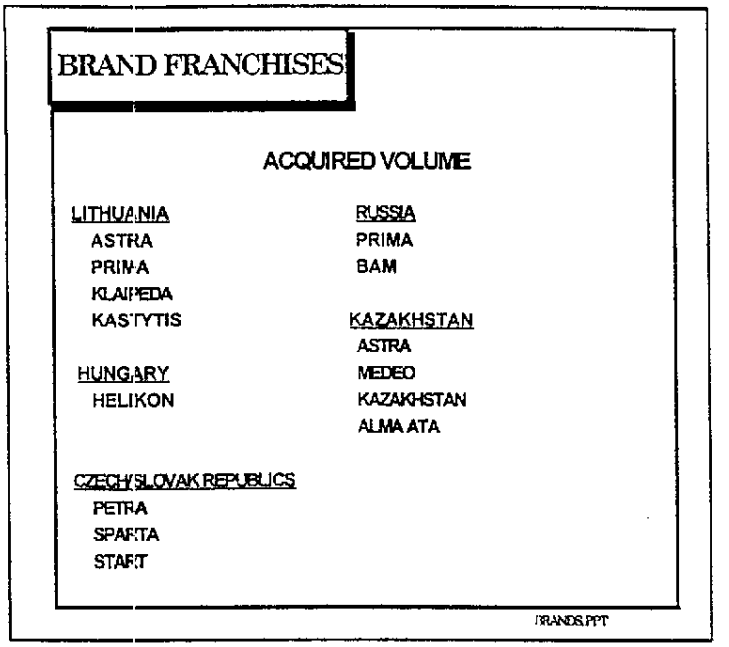
Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004

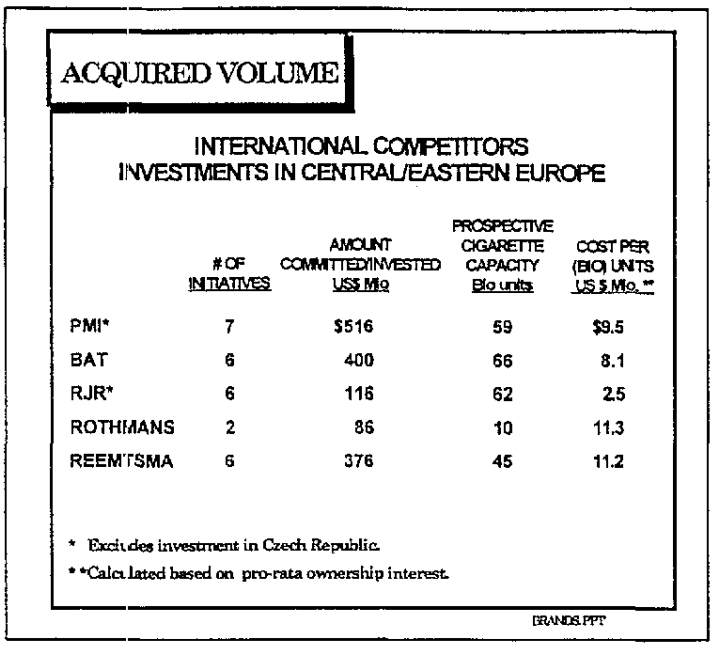


THROUGH RECENT ACQUISITIONS IN LITHUANIA, HUNGARY, CZECH REPUBLIC, RUSSIA AND KAZAKHSTAN, WE'VE ADDED 30 BILLION UNITS TO OUR BRAND PORTFOLIO. A REPRESENTATIVE LIST OF THE BRANDS ACQUIRED IS SHOWN HERE. WHILE IN THE SHORT TERM MANY OF THESE BRANDS ARE LOW MARGIN, THESE BRANDS AFFORD US THE OPPORTUNITY TO EFFECTIVELY REDUCE THE PER UNIT COST OF DISTRIBUTION FOR OR PREMIUM BRANDS.

THERE HAD BEEN SOME COMMENTS FROM OUR COMPETITORS THAT PHILIP MORRIS HAD PAID A PREMIUM FOR BRANDS RECENTLY ACQUIRED. I'D QUICKLY LIKE TO PUT THIS IN CONTEXT WITH THE NEXT FEW SLIDES....

2071969991

Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



LOOKING AT BOTH PM'S AND THE COMPETITORS' INITIATIVES IN CENTRAL AND EASTERN EUROPE -

WE'VE EXCLUDED OUR INVESTMENT IN TABAK IN THE CZECH REPUBLIC IN ORDER TO AVOID THE DISTORTION CAUSED BY THE PREMIUM PAID FOR OUR EQUITY IN THIS AFFILIATE WHICH IS ALREADY HIGHLY PROFITABLE.

WE CAN SEE THAT ON A COST PER BILLION UNITS OF ACQUIRED VOLUME, PM COMPARES FAVORABLY TO BOTH REEMTSMA AND ROTHMANS. INFORMATION PRESENTED HERE FOR PM IS INCLUSIVE OF TOTAL SPENDING - I.E. INVESTMENT AND CAPITAL EXPENDITURES, BUT FOR OUR COMPETITORS WE DO NOT HAVE COMPLETE DATA AND HAVE RELIED ON PUBLISHED REPORTS.

IF WE EXCLUDE OUR INVESTMENT IN THE HIGHLY COMPETITIVE BIDDING PROCESS FOR ALMATY IN KAZAKHSTAN, OUR COST PER BILLION UNITS OF ACQUIRED WOULD BE DRIVEN DOWN TO $6.4 MILLION PER BIO UNITS. THIS IS FAVORABLE TO BAT'S COST.

RJR'S AVERAGE COST PER BILLION UNITS IS LOWER DUE TO BOTH THEIR GREENFIELD APPROACH IN POLAND AND THEIR ACQUISITION OF A SIZABLE POSITION IN THE UKRAINE, WHERE ACQUISITION COSTS HAVE BEEN LOW FOR BOTH THEMSELVES AND THE OTHER INTERNATIONAL COMPETITORS, INCLUDING PM.

LOOKING AT OUR COSTS ON A PER INVESTMENT BASIS-

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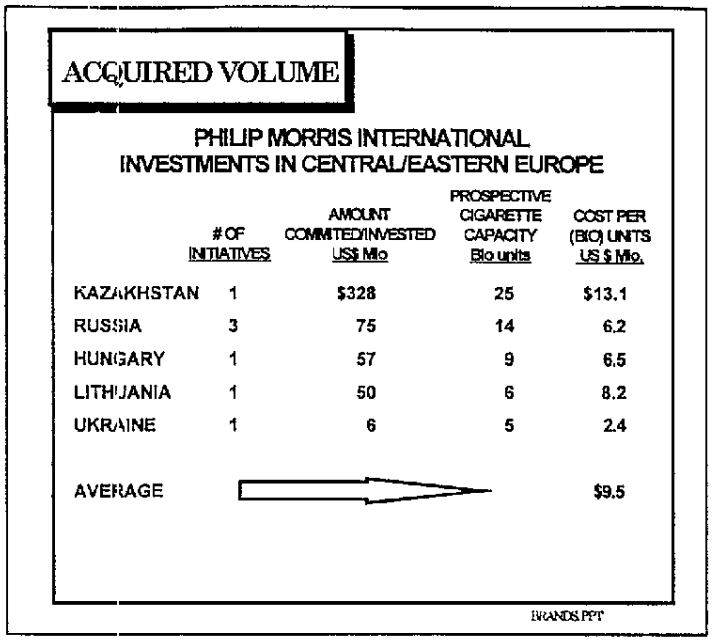
Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



AS YOU CAN SEE, OUR LARGEST INITIATIVE IS IN KAZAKHSTAN, WHERE WE ARE AT PRESENT THE SOLE MANUFACTURER. RJR HAS ANNOUNCED THE ACQUISITION OF A CONFECTIONERY BUSINESS IN THIS COUNTRY AND WE EXPECT IN THE NEAR FUTURE THAT RJR WILL INSTALL A MAKE/PACK FACILITY IN THE ACQUIRED PREMISES.

PM HAS MADE OTHER INVESTMENTS IN RUSSIA, HUNGARY, LITHUANIA AND MOST RECENTLY IN THE KHARKIV FACTORY IN THE UKRAINE.

I WOULD NOW LIKE TO GIVE YOU AN UPDATE ON OUR INVESTMENT IN TABAK.

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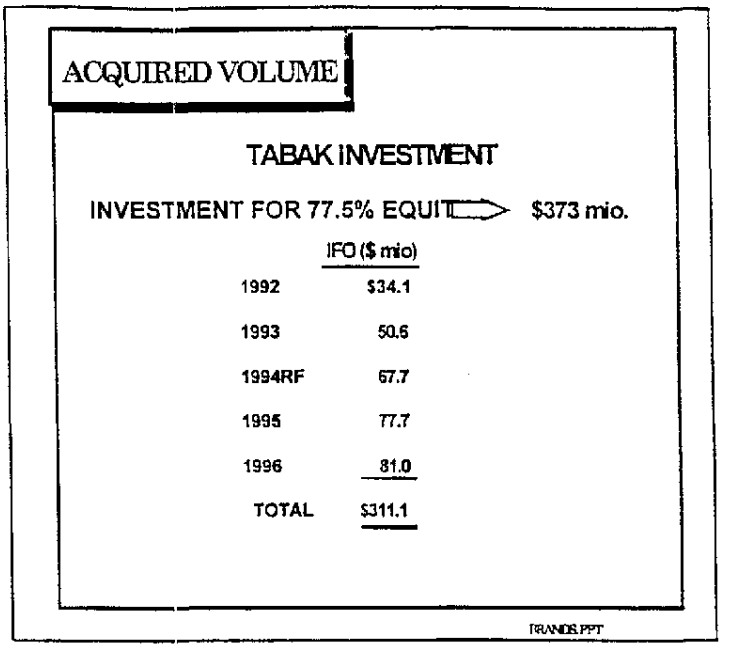
Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



OUR INVESTMENT IN THE CZECH REPUBLIC IS PROVING TO BE A SUCCESSFUL ONE. PM'S IFO HAS BEEN INCREASING SINCE OUR ACQUISITION AND WILL REACH $68 MILLION THIS YEAR.

TO CONCLUDE...

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Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004

BRAND FRANCHISES

TOP 10 INT'L BRANDS (ex-USA)

1993 RANKING	BRAND	OWNER	VOLUME (Bio) 1993
1	MARLBORO	PM	238.8
2	WINSTON	RJR	48.8
3	CAMEL	RJR	38.4
4	B&H	PM/BAT/AB	33.9
5	PHILIP MORRIS	PM	22.8
6	L&M	PM	22.8
7	SE 555	BAT	22.5
8	LARK	PM	20.0
9	KENT	BAT	17.7
10	CHESTERFIELD	PM	14.6

ALT1.PPT

MARLBORO IS THE NUMBER ONE INTERNATIONAL BRAND WORLDWIDE AND OUTDISTANCES ITS CLOSEST COMPETITOR BY A WIDE MARGIN. EXCLUDING MONOPOLIES, FIVE OF PHILIP MORRIS INTERNATIONAL BRANDS ARE REPRESENTED IN THE TOP TEN INTERNATIONAL BRANDS WORLDWIDE - MARLBORO, PHILIP MORRIS, L&M, LARK AND CHESTERFIELD. WE'RE NOT HIGHLIGHTING B&H BECAUSE OF MIXED OWNERSHIP. DESPITE OUR DEPENDENCY ON MARLBORO, OUR INTERNATIONAL BRAND PORTFOLIO IS EXPANDING AND MANY OF OUR BRANDS HAVE TREMENDOUS POTENTIAL IN NEW GEOGRAPHIES. WITH APPROPRIATE MARKETING SUPPORT, CONSISTENT BRAND IMAGERY WORLDWIDE AS WELL AS FURTHER DEVELOPMENT OF KEY BRANDS INTO INTERNATIONAL TRADEMARKS, WE CAN GROW OUR VOLUME FURTHER. AT THE SAME TIME, WE CONTINUE TO BUILD AND GROW VOLUME THROUGH THE DEVELOPMENT OF LOCAL BRANDS SUCH AS NEXT AND DALLAS AS WELL AS THROUGH ACQUISITIONS.

I'D NOW LIKE TO DISCUSS SOME KEY MARKET ISSUES.

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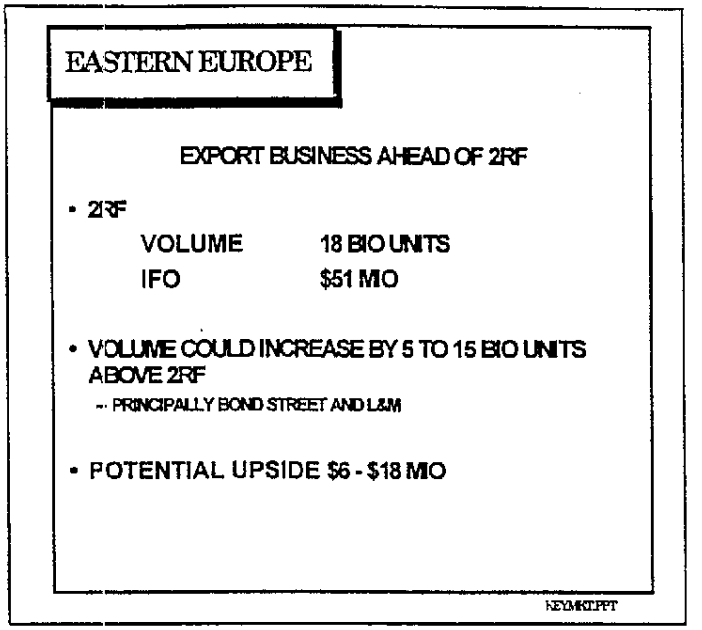
Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



OUR 2RF INCLUDES 18 BILLION UNITS AND $51 MILLION IN IFO FOR EASTERN EUROPE.

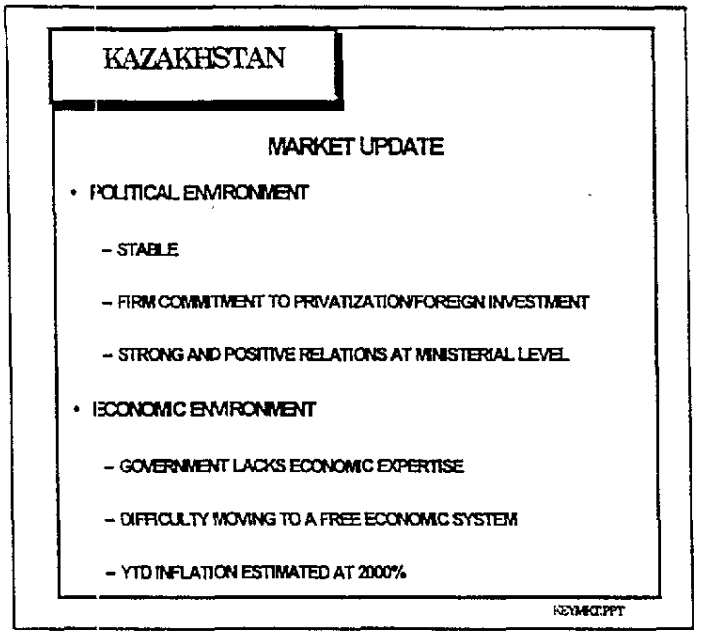
THIS BUSINESS IS EXTREMELY VOLATILE, HOWEVER, WE ESTIMATE WE COULD END UP 5 TO 15 BILLION UNITS ABOVE 2RF - MOSTLY BOND STREET AND L&M - GENERATING BETWEEN $6 - $18 MILLION IN ADDITIONAL INCOME. THIS PRO IS ON OUR SENSITIVITIES LIST.

EFFECTIVE JANUARY 1, EXCISE TAX STAMPS WILL BE REQUIRED FOR CIGARETTES SOLD IN RUSSIA. STAMPS WILL BE AVAILABLE FOR SALE AFTER JULY 1, 1994. WE EXPECT THERE MAY BE A SURGE IN OUR FOURTH QUARTER VOLUME PRIOR TO JANUARY 1 WITH SIGNIFICANT PAYBACK COMING IN THE FIRST QUARTER 95.

NOW FOR A BRIEF UPDATE ON KAZAKHSTAN...

2071969996

Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



IN KAZAKHSTAN, WE'RE DEALING WITH A RELATIVELY STABLE POLITICAL ENVIRONMENT. THE GOVERNMENT IS FIRMLY COMMITTED TO PRIVATIZATION AND IS ENCOURAGING PRIVATE INVESTMENT. OUR RELATIONSHIP WITH MEMBERS OF THE GOVERNMENT AT THE MINISTERIAL LEVEL CONTINUES TO BE BOTH STRONG AND POSITIVE.

TO SOME EXTENT, THE DIFFICULTIES WE'RE EXPERIENCING NOW HAVE ARISEN DUE TO THE GOVERNMENT'S LACK OF EXPERTISE IN MANAGING THE TRANSITION FOLLOWING THE ESTABLISHMENT LAST YEAR OF IT'S OWN CURRENCY, THE TENGE. INFLATION IN KAZAKHSTAN IS CURRENTLY ESTIMATED TO BE RUNNING AT 2000% ON AN ANNUAL BASIS.

LISTED ON THIS NEXT CHART ARE THE 3 MAJOR ISSUES WE'VE ENCOUNTERED. WE BELIEVE THESE ISSUES HAVE ARISEN AS A RESULT OF THE SEVERE ECONOMIC ENVIRONMENT WHICH EXISTS IN KAZAKHSTAN.

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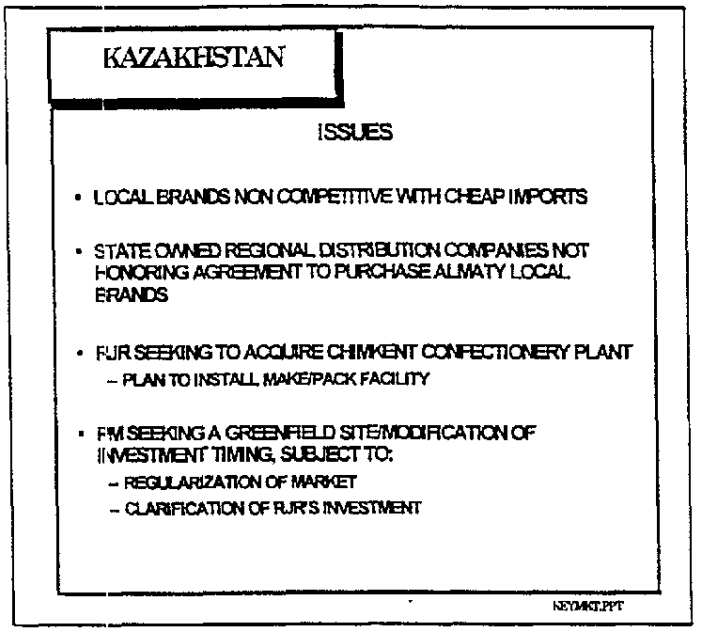
Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



IN AN EFFORT TO BOOST REVENUES, THE GOVERNMENT INTRODUCED AN EXCISE TAX ON PAPIROSSI AND NON-FILTER BRANDS WHICH EFFECTIVELY RENDERS LOCAL BRANDS NON COMPETITIVE VERSUS CHEAP IMPORTS. IN RESPONSE, OUR LOCAL MANAGEMENT IS ACTIVELY SEEKING THAT THESE TAXES BE REPEALED GIVEN THE DRAIN THEY HAVE ON THE KAZAKH ECONOMY. THE APPROPRIATE GOVERNMENT MINISTERS RECOGNIZE OUR CONCERNS AND HAVE APPOINTED A COMMITTEE TO REVIEW AND ADVISE WHAT NEEDS TO BE DONE TO RESOLVE THE SITUATION.

OUR ISSUE WITH THE STATE OWNED REGIONAL DISTRIBUTION COMPANIES OF NOT HONORING THEIR AGREEMENT TO PURCHASE 15 BILLION UNITS OF ALMATY BRANDS IS ALSO RELATED TO THE EXCISE TAX SITUATION. OUR LOBBYING EFFORTS WITH THE GOVERNMENT APPEAR TO BE SOMEWHAT SUCCESSFUL IN THAT IT NOW APPEARS THAT THE RETAIL PRICE OF IMPORTS IS RISING. IN ADDITION OUR EFFORTS TO DEVELOP ALTERNATIVE DISTRIBUTION IS PROCEEDING AS WE ARE ACTIVELY NEGOTIATING THE SALE OF 1.6 BILLION UNITS OF ALMATY INVENTORY TO A LOCAL COMPANY.

AS TO RJR ACQUIRING THE CHIMKENT CONFECTIONERY PLANT, THEY WERE THE ONLY COMPANY TO BID ON THE FACILITY. IN ADDITION, THE GOVERNMENT OBTAINED AN INVESTMENT PREMIUM FROM RJR FOR THE MAKE/PACK.

GIVEN THAT OUR EXISTING FACTORY DOES NOT MEET OUR REQUIREMENTS, OUR OBJECTIVE IS TO MODIFY THE TIMING OF OUR ORIGINAL INVESTMENT PLAN AND BUILD A NEW FACILITY. WE INTEND TO PRESENT OUR GREENFIELD PROJECT TO THE GOVERNMENT IN JULY IN A WAY THAT RESOLVES ISSUES SUCH AS EXCISE TAXES AND DISTRIBUTION. WE ALSO PLAN TO OBTAIN CLARIFICATION OF RJR'S INTENTIONS AS TO THE CHIMKENT PLANT AND SECURE APPROVAL AS TO THE CONTENT AND TIMING OF THE MODIFIED INVESTMENT PLAN.

THROUGHOUT OUR EFFORTS IN KAZAKHSTAN, OUR LOCAL PERSONNEL HAVE BEEN FULLY SUPPORTIVE OF OUR EFFORTS.

TURNING NOW TO DUTY FREE USA...

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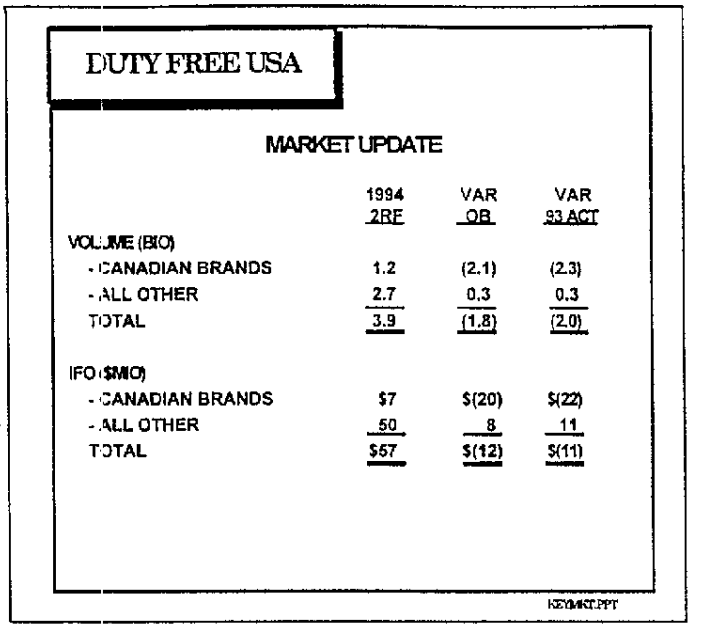
Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



THE CESSATION OF THE CANADIAN BRANDS SEGMENT EARLIER THIS YEAR HAS SIGNIFICANTLY IMPACTED OUR BUSINESS, IN BOTH VOLUME AND IFO TERMS, BUT ALL OTHER CORE BUSINESSES, WHICH INCLUDES MEXICAN BORDER SALES, REMAINS STRONG.

TO LOOK AT WHAT IMPACT THE CANADIAN BRANDS BUSINESS HAS HAD ON OUR RESULTS...

2071969999

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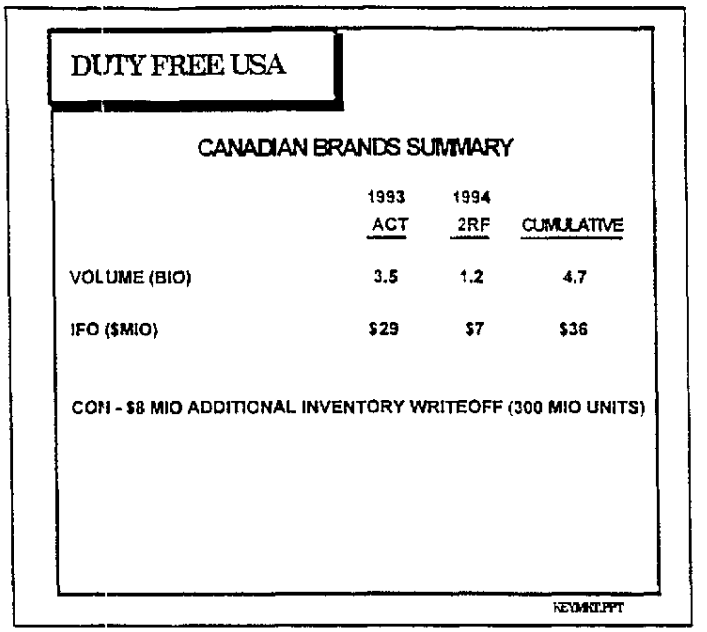

OVER A TWO YEAR PERIOD WE SOLD ALMOST FIVE BILLION UNITS AND GENERATED $36 MILLION IN IFO. THE $36 MILLION IN IFO WOULD BE REDUCED TO $28 MILLION IF WE'RE UNABLE TO SELL THE REMAINING INVENTORY ON HAND.

I'LL NOW TURN THE PROGRAM OVER TO VINNY MURPHY WHO'LL DISCUSS FINANCE.

2071970000

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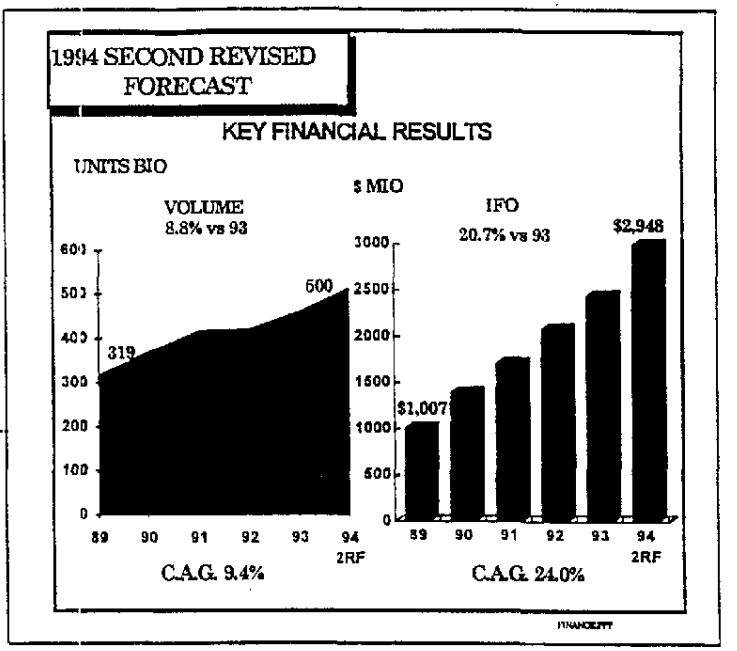

OUR 1994 CIGARETTE VOLUME IS ON BUDGET AT 500 BILLION UNITS AND 9% ABOVE 1993. IFO AT $2.9 BILLION IS ALSO ON BUDGET AND 21% ABOVE 1993.

FIRST, LOOKING AT VOLUME VERSUS THE OB....

2071970001

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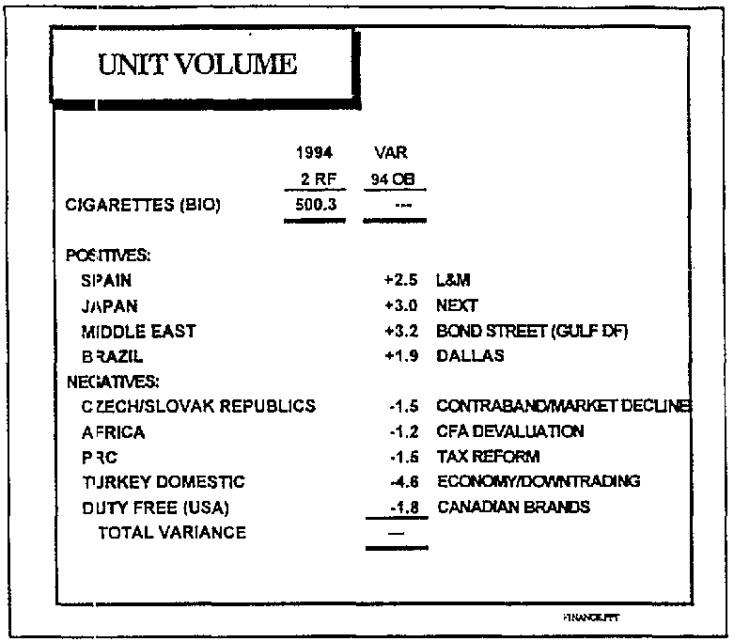


HERE YOU SEE THAT, ALTHOUGH WE HAVE SEVERAL OFFSETING VARIANCES, WE CONTINUE TO PROJECT 2RF VOLUME TO BE IN LINE WITH BUDGET.

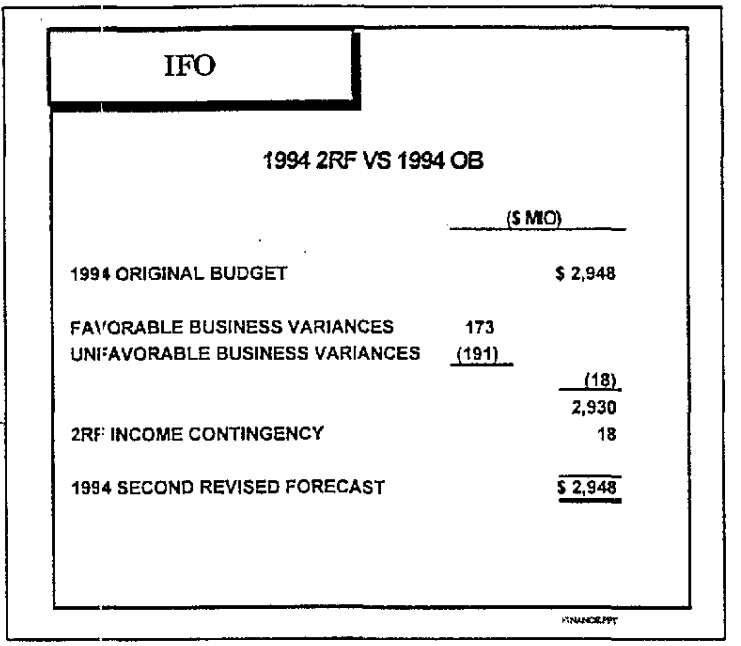
THE MAJOR POSITIVES ARE DUE TO NEW BRAND LAUNCHES AND THE GOOD PERFORMANCE OF BRANDS LAUNCHED IN 1993.

DECREASES IN PROJECTED VOLUME ARE PRIMARILY DUE TO THE EFFECT OF AN OVERALL MARKET DECLINE AND CONTRABAND IN THE CZECH AND SLOVAK REPUBLICS, THE 50% DEVALUATION OF THE CFA IN AFRICA, THE JANUARY IMPLEMENTATION OF TAX REFORMS IN THE PRC, THE ECONOMIC SITUATION AND CONSUMER DOWNTRADING IN TURKEY, AND THE CESSATION OF THE CANADIAN BRANDS BUSINESS IN DUTY FREE (USA).

TURNING TO IFO, ALTHOUGH WE'VE HELD OUR OB, A NUMBER OF OFFSETTING CHANGES HAVE OCCURRED AND ARE SUMMARIZED ON THE NEXT CHART.....

2071970002

Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004

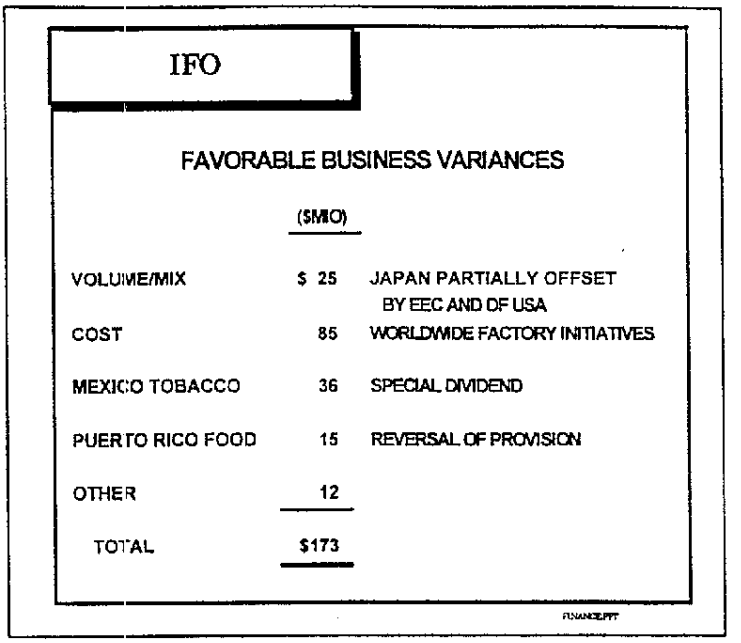


IN COMPARING THE 1994 2RF TO THE OB, OUR FAVORABLE BUSINESS VARIANCES ARE MORE THAN OFFSET BY A NUMBER OF UNFAVORABLES. WE HAVE HOWEVER INCLUDED AN INCOME CONTINGENCY OF $18 MILLION TO ACHIEVE OUR OBJECTIVE.

LOOKING AT THE FAVORABLES IN MORE DETAIL....

2071970003

Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004

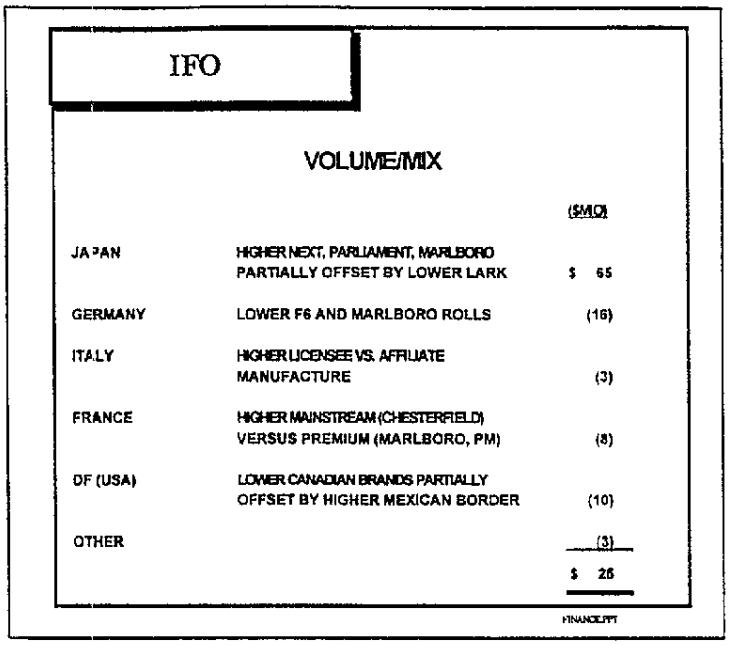


WE SEE THAT THE VARIANCES ARE DUE TO VOLUME AND MIX, FAVORABLE COSTS DUE TO WORLDWIDE FACTORY INITIATIVES AND LOWER LEAF COSTS, A SPECIAL DIVIDEND FROM CIGATAM AND THE REVERSAL OF A PUERTO RICO FOOD PROVISION.

LOOKING AT THE VOLUME/MIX VARIANCE IN DETAIL...

2071970004

Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004

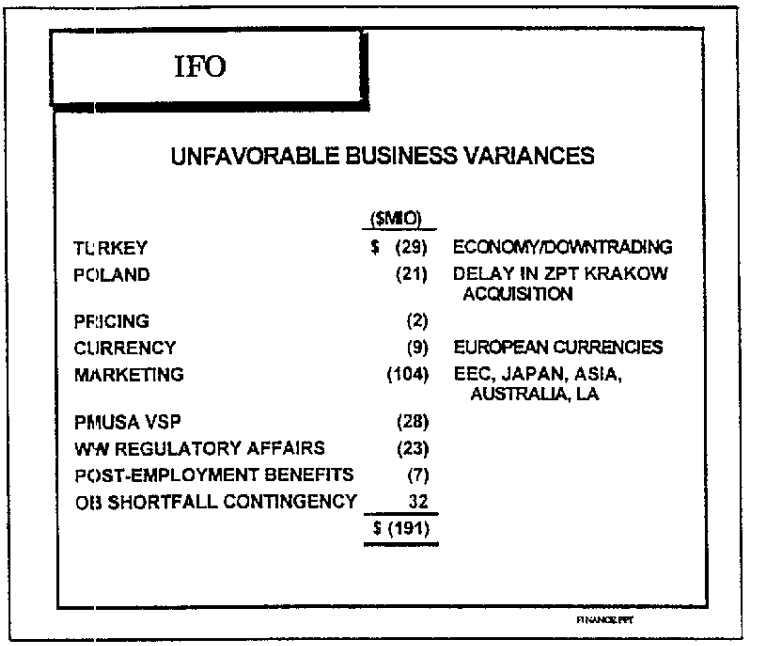


WE SEE THAT THE FAVORABLE VOLUME AND MIX IN JAPAN IS PARTIALLY OFFSET BY UNFAVORABLE VARIANCES IN GERMANY, ITALY, FRANCE AND DUTY FREE USA.

TURNING TO UNFAVORABLE BUSINESS VARIANCES.....

2071970005

Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



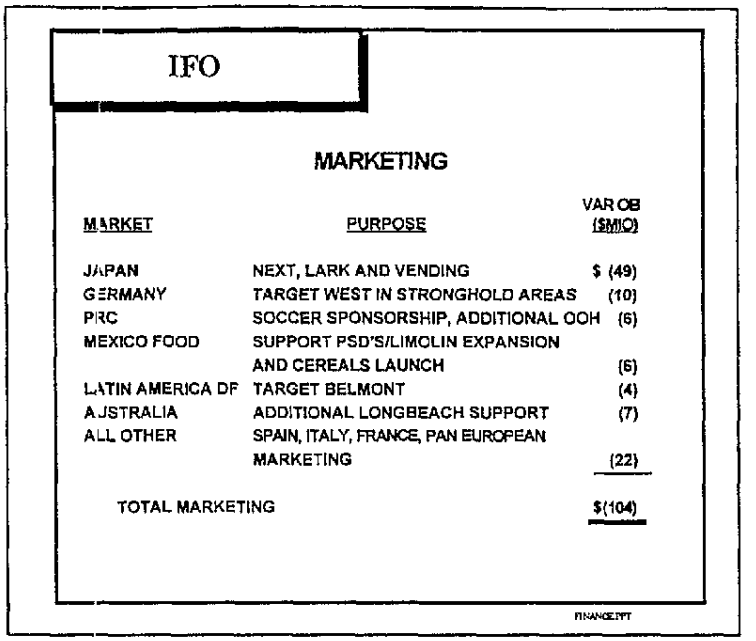
WE SEE THAT OUR UNFAVORABLES ARE DUE TO THE ECONOMY AND RESULTING CONSUMER DOWNTRADING IN TURKEY, THE DELAY IN THE ZPT KRAKOW ACQUISITION IN POLAND, SLIGHTLY UNFAVORABLE PRICING AND EUROPEAN CURRENCIES. WE WILL ALSO HAVE HIGHER MARKETING SPENDING WHICH I'LL DISCUSS IN A MOMENT.

IN ADDITION, WE HAVE UNFAVORABLE VARIANCES DUE TO AN ALLOCATION OF THE COSTS RELATED TO THE PMUSA VOLUNTARY SEPARATION PROGRAM, WORLDWIDE REGULATORY AFFAIRS AND POST-EMPLOYMENT BENEFITS. NONE OF THESE ALLOCATIONS WERE INCLUDED IN OUR ORIGINAL BUDGET. HOWEVER, OUR ORIGINAL BUDGET DID INCLUDE A $32 MILLION BUSINESS SHORTFALL CONTINGENCY TO COVER UNSPECIFIED DOWNSIDES.

THE FOLLOWING CHART IS AN ABBREVIATED SUMMARY HIGHLIGHTING THE KEY ELEMENTS OF THE $104 MILLION IN MARKETING SPENDING.

2071970006

Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



IFO

MARKETING

MARKET	PURPOSE	VAR OB ($MIO)
JAPAN	NEXT, LARK AND VENDING	$ (49)
GERMANY	TARGET WEST IN STRONGHOLD AREAS	(10)
PRC	SOCCER SPONSORSHIP, ADDITIONAL OOH	(6)
MEXICO FOOD	SUPPORT PSD'S/LIMOLIN EXPANSION AND CEREALS LAUNCH	(6)
LATIN AMERICA DF	TARGET BELMONT	(4)
AUSTRALIA	ADDITIONAL LONGBEACH SUPPORT	(7)
ALL OTHER	SPAIN, ITALY, FRANCE, PAN EUROPEAN MARKETING	(22)
TOTAL MARKETING		$(104)

FINANCE.PPT

HERE WE SEE THAT IN JAPAN, WE PLAN TO SPEND AN ADDITIONAL $49 MILLION TO SUPPORT NEXT AND LARK AND FOR INCREASED VENDING.

IN GERMANY, WE'VE COMMITTED AN ADDITIONAL $10 MILLION TO TARGET WEST IN NELSON II - A WEST STRONGHOLD.

IN THE PRC, WE'LL SPEND $6 MIO TO SUPPORT A SOCCER SPONSORSHIP AND ADDITIONAL OUT OF HOME.

AND IN MEXICO FOOD, WE'LL SPEND $6 MILLION TO SUPPORT PSD'S, INCLUDING THE LAUNCH OF LIMOLIN, AS WELL AS HIGHER SPENDING TO SUPPORT THE STARTUP OF THE CEREAL BUSINESS.

INCLUDING ALL OTHER INITIATIVES, TOTAL MARKETING SPENDING IS FORECASTED TO BE $104 MILLION ABOVE THE O.B.

NOW TO DISCUSS SENSITIVITIES TO OUR FORECAST....

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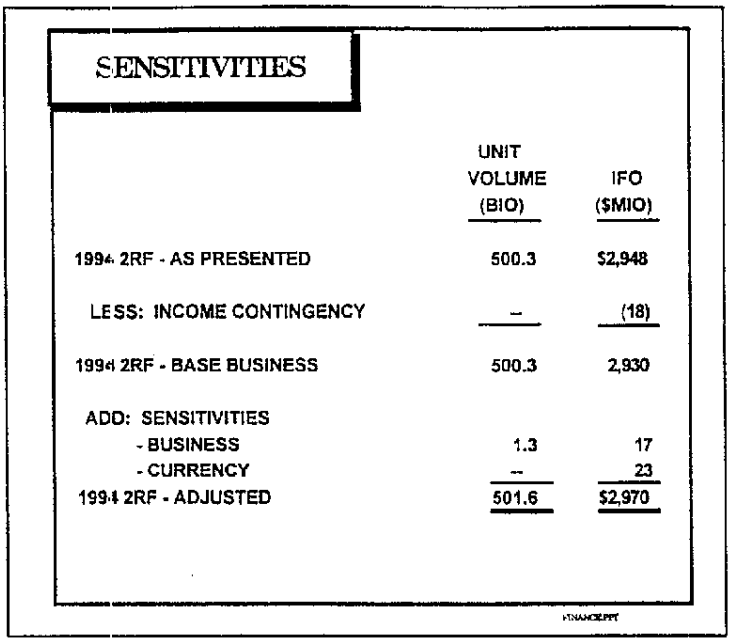

REMOVING THE INCOME CONTINGENCY OF $18 MILLION, OUR BASE BUSINESS IFO IS 2 BILLION 930 MILLION DOLLARS.

TODAY WE RECOGNIZE THERE ARE SOME BUSINESS SENSITIVITIES WHICH COULD INCREASE VOLUME BY 1.3 BILLION UNITS AND IFO BY $17 MILLION.

LOOKING AT THE SENSITIVITIES IN MORE DETAIL...

2071970008

Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004

SENSITIVITIES

BUSINESS		UNIT VOLUME (BIO)	IFO ($MIO)
EASTERN EUROPE	HIGHER VOLUME	5.0	$ 6
RUSSIA	RVT RECEIVABLE - 50% DISCOUNT	—	40
TURKEY	LOWER VOLUME	(1.0)	(5)
ASIA DF	LOWER VOLUME	(1.0)	(16)
DF (USA)	INVENTORY WRITEOFF	(0.3)	(8)
OTHER	EEC/EEMA	(1.4)	—
		1.3	$ 17

FINANCE.PPT

WE SEE POSSIBILITIES FOR HIGHER VOLUME OF 5 BILLION UNITS IN EASTERN EUROPE WHICH COULD CONTRIBUTE $6 MILLION.

THE POSSIBILITY OF COLLECTING 50% OF THE RVT RECEIVABLE IN SETTLEMENT OF OUR OUTSTANDING DEBT, WHICH WOULD CONTRIBUTE $40 MILLION.

CONDITIONS IN TURKEY MAY FURTHER LOWER VOLUME BY 1 BILLION UNITS AND IFO BY $5 MILLION.

LOWER VOLUME IN ASIA DUTY FREE OF 1 BILLION, WHICH MAY LOWER IFO BY $16 MILLION.

AND, IF WE SELL LESS THAN WE PROJECT OF THE CURRENT CANADIAN BRAND INVENTORY, WE COULD HAVE AN ADDITIONAL INVENTORY WRITEOFF OF 300 MILLION UNITS RESULTING IN A CON OF $8 MILLION.

IN THE "OTHER" LINE WE RECOGNIZE THE POSSIBILITY OF LOWER VOLUME PARTIALLY OFFSET BY FAVORABLE MIX IN EEC AND EEMA.

NEXT I'LL QUANTIFY THE IMPACT OF CURRENCY ON OUR BUDGET.....

2071970009

Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004

SENSITIVITIES

	UNIT VOLUME (BIO)	IFO ($MIO)
1994 2RF - AS PRESENTED	500.3	$2,948
LESS: INCOME CONTINGENCY	--	(18)
1994 2RF - BASE BUSINESS	500.3	2,930
ADD: SENSITIVITIES		
- BUSINESS	1.3	17
- CURRENCY	--	23
1994 2RF - ADJUSTED	501.6	$2,970

FINANCE/FT

AT TODAY'S SPOT RATES, OUR INCOME WOULD BE $23 MILLION HIGHER DUE TO STRENGTHENING OF THE DEUTSCHE MARK AND ITALIAN LIRA PARTIALLY OFFSET BY THE STRENGTHENING OF THE SWISS FRANC.

CONSIDERING THIS CURRENCY BENEFIT ALONG WITH THE BUSINESS SENSITIVITIES WHICH WE HAVE JUST REVIEWED, OUR 2RF COULD COME IN AT 2 BILLION 970 MILLION DOLLARS.

BILL WILL NOW DELIVER HIS CONCLUDING COMMENTS.

NOTES ONLY:

	2RF RATE	STND/SPOT RATE	VAR FAV/(UNFAV) ($ MIO)
MARK	1.66	1.61	$10.4
GUILDER	1.87	1.81	(7.4)
SWISS FRANC	1.45	1.37	(15.4)
ITALIAN LIRA	1,650.00	1,576.84	18.4
FRENCH FRANC	5.69	5.52	9.2
YEN	104.94	104.94	—
ALL OTHER, NET	---	---	7.9
			$23.1

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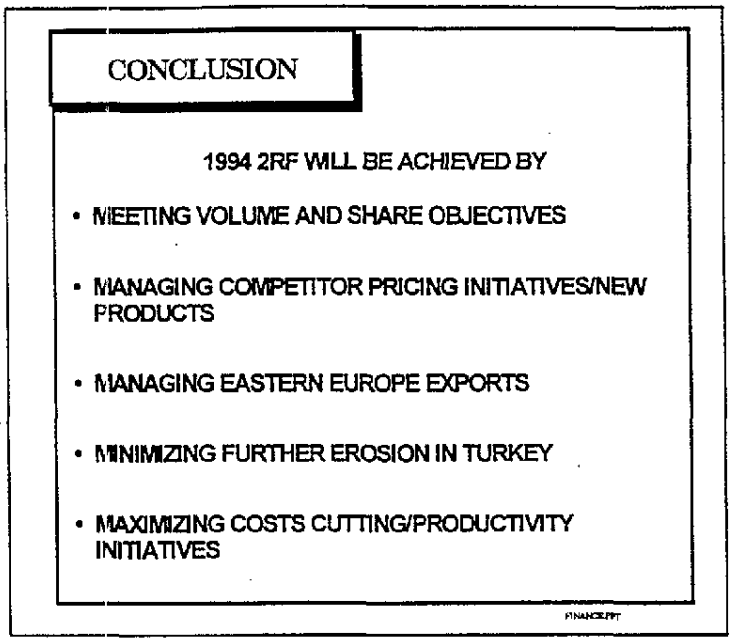
Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004



WE'LL ACHIEVE OUR 1994 2RF IFO OBJECTIVE OF $2.9 BILLION BY MEETING OUR VOLUME AND SHARE OBJECTIVES AS PREVIOUSLY MENTIONED, PARTICULARLY IN KEY MARKETS SUCH AS GERMANY, ITALY AND JAPAN.

WE PLAN ON DOING THAT BY SUCCESSFULLY CONTAINING COMPETITOR PRICING INITIATIVES SUCH AS RJR'S ACTIONS IN FRANCE AND SAUDI ARABIA, AS WELL AS CONTAINING THE GROWTH OF NEW PRODUCT INITIATIVES SUCH AS "SHORTIES" AND TAX LOOPHOLE PRODUCTS SUCH AS CIGARILLOS IN GERMANY AND NEW PACK PROPOSITIONS SUCH AS 10'S AND 14'S IN FRANCE.

OUR BUSINESS IN EASTERN EUROPE IS BEST CHARACTERIZED AS EXTREMELY VOLATILE. HOWEVER, AS EVIDENCED BY THE PRO REFLECTED PREVIOUSLY, WE'RE CAUTIOUSLY OPTIMISTIC ABOUT OUR VOLUME PROSPECTS.

ALTHOUGH THE ECONOMIC CONDITIONS IN TURKEY HAVE BEEN A SETBACK FOR US, WE PLAN TO MAKE THE BEST OF THE SITUATION BY AGGRESSIVELY MANAGING OUR LEAF TOBACCO COSTS AND UTILIZING OUR NEW DISTRIBUTION SYSTEM, AS WELL AS USING THE LARK LAUNCH AS A PLATFORM FOR FUTURE PROFITABILITY.

WE'RE CONFIDENT THAT THE COST CUTTING AND PRODUCTIVITY INITIATIVES INCLUDED IN OUR REVISED FORECAST ARE ACHIEVABLE AND WE CONTINUE TO FOCUS ON FURTHER REDUCING COSTS WHERE IT MAKES GOOD BUSINESS SENSE..

THAT CONCLUDES OUR PRESENTATION FOR TODAY. THANK YOU.

2071970011

Source: https://www.industrydocuments.ucsf.edu/docs/kyym0004